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An evaluation of users and preparers perceptions on the management of risk disclosures: a service quality perspective.

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Thesis Submitted in Fulfilment of the Requirements for the Degree of Doctor of Philosophy (PhD)

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Abstract

The extant risk disclosure literature has explored the determinants and incentives for risk disclosure. However, no study to date has examined the design process of risk disclosures. The purpose of This study is to fill this gap, while using a qualitative case study approach within the context of a UK listed Bank.

The research examines the management of risk disclosures, with particular focus on users' expectations for risk disclosure quality, and the degree to which these are incorporated in the decision choices taken by management when deciding what to disclose and what not to disclose. It explores a set of discrepancies between what a user of risk disclosure expects of the quality of such an information and their perceptions on the actual disclosures they get mainly from the annual report and the pillar 3 risk disclosure report.

Drawing on the Gaps Model of Service Quality from the marketing literature (Parasuraman *et al.,* 1985; Zeithaml *et al.,* 2002;2016), it is argued that this overarching discrepancy is influenced by the degree to which preparers perceive and understand the expectations of their users and the disclosure designs they establish to reflect how they have perceived these expectations. Even though the authors of the Gaps Model refer to disclosure designs as the decision choices made by management in relation to how the disclosures should be presented, the Model provides little scope for examining these decision choices. For this reason, the Gaps Model is amalgamated with the Disclosure Management Framework from the accounting literature (Gibbins *et al.,* 1990; Mayorga, 2013; Johansen and Plenborg, 2018) to provide an explanation on how the internal decision - making process is undertaken by management when translating their perceptions of users' expectations into risk disclosure quality specifications and a new framework is developed in the process.The findings indicate that even though user participants express a desire for an access to the bank's regulatory reporting, reduction in the volume of the disclosures and reliability of the information provided, it is evident that they recognise these may not always be possible.

The findings support the notion that user expectations for the quality of risk disclosure is a key antecedent to the corporate disclosure process. However, in meeting these expectations, management faces multiple challenges when deciding what to disclose and what not to disclose including the risk of misinterpretation and the disclosure of commercially sensitive information. It is also evident that, irrespective of users' expectations, there are a number of challenges embedded within their risk reporting process.

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List of Abbreviation

BCBS	Basel Committee on Banking Supervision
CFA	Chartered Financial Analyst
CFO	Chief Finance Officer
CRO	Chief Risk Officer
EDTF	Enhanced Disclosure Task Force
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GFC	Global Financial Crisis
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
ISO	International Organisation for Standardisation
OECD	Organisation for Economic Co-operation and Development
PRA	Prudential Regulatory Authority
RWA	Risk Weighted Assets
UK	United Kingdom.

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During my doctorate studies, I had the opportunity to present my research at the following conferences: Financial Reporting and Business Communication Conference (2017, 2018, and 2019), Scottish Doctorial Colloquium (2017, 2018 and 2019) and the PhD Scholars Conference at Queen Mary University in 2019). I would like to thank all the participants who provided me with valuable comments and advice.

I would not have completed this PhD if it had not been for the risk reporting managers, analysts and other professionals who participated in this research. For this reason, I would like to express my sincere appreciation to all interviewees who made this study possible.

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Finally, I dedicate this thesis to my Grandmother Madam Christiana Cudjoe who supported me during the earlier stages of my PhD studies. She passed away in the second year of my PhD. I believe she is with me during this time and I know she would be happy with my achievement.

Researcher’s Declaration

I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

Printed Name: Zaneta A. Azuma

Signature:

Chapter 1: Introduction

1.1 An overview of the risk disclosure practice

Risk management is an important part of any business and in the last few decades, risk management has emerged in numerous and familiar ways to include a considerable increase in risk reporting activities (Billings, 2017). Risk reporting as a branch of risk management and accounting serves as a means for which investors and other users are well informed to understand the governance of a firm's risk-taking and its performance. The main users of risk disclosures include shareholders, investors, regulators, and financial analysts.

Particularly for the banking sector, where issues on risk are predominant and the disclosure on the risks they face are on high demand, banks are expected to provide adequate risk disclosure in a timely manner. As a result, regulatory authorities and standard setters have changed their reporting requirements for risk disclosure on several occasions to reflect this demand. In order to ensure that companies provide adequate accounting information, regulators may pay more attention to the changes in economic circumstances that could affect the information needs of the users.

It is worth noting at this point that most of the bank's risk disclosures are provided in their annual reports mainly in connection with the UK Companies Act 2006 (414A and 414C), IAS 1 – *Presentation of Financial Statements*, IFRS 9 – *Financial Instruments,* IFRS 7 – *Financial Instruments: Disclosures*, Basel pillar 3 risk report which is produced as a stand-alone document, UK corporate governance code and the International Standard on Auditing 700. These standards and regulations are relevant to UK banks.

Nevertheless, risk reporting is constantly changing and an essential component of this demand for risk reporting stems from a growing number of new and increased risks that have emerged from the continuing corporate scandals (Power, 2004; ICAEW, 2011a; Camfferman and Wielhouwer, 2019). A few of these new and emerging risks are not standardized and their disclosures are not subject to regulatory requirements at the moment (e.g. climate change related risks, cyber risks). As a result, and as a response to the external demands for adequate risk disclosure, banks attempt to provide disclosures in the form of ad-hoc and voluntary disclosures. There are also agencies such as the Task Force on Climate Related financial disclosures and the Enhanced Disclosure Task Force (EDTF) who provide guidance on the way such risks could be provided.

Prior studies on corporate financial disclosures find that, while managers have adopted the regulators' practices for better disclosure and taken a cautious view of disclosure. Managers acknowledged that it was not always feasible to provide immediate disclosure and there is a immense process that goes behind deciding what to disclose (Mayorga, 2013; Amel-Zadeh *et al.,* 2019). Within this process, firms have in place a series of activities, procedures, threads, and connections among people and events when deciding what to disclose and what not to disclose.

1.2 Management of risk disclosure and risk disclosure quality

The provision of quality risk disclosures is essential for information users (i.e. investors, analysts, and regulators) as it enables them to make informed economic decisions which in the long run may impact the financial performance of the business. In this demanding environment, management needs to increase its credibility through the quality of the firm's on-going risk communications. Risk disclosures enable investors, for instance, to assess specific events prior to their occurrence and how that is going to impact their investments. Therefore, providing a well-defined subset of the bank's individual risks allows users to better predict changes in the firm's performance and to evaluate its future events as they happen (Ryan, 2012).

One of the main factors that contributed to the 2007-2008 Global Financial Crisis (GFC) was the inadequate public risk disclosures provided within the banking sector, as investors were unable to judge the risks banks were facing (Bank of England, 2013). One question this poses is whether banks fully understood the risks they were facing and/or whether their disclosure processes were inadequate to convey relevant disclosures for investors to comprehend.

The banking sector has experienced significant changes concerning their business models over the years driven by regulations established by both national and institutional bodies, technological changes, and the globalization of goods and financial markets (Chen *et al.,* 2014; Blum, 2008). Most of these changes took effect after the GFC such as the revisions of the Basel Accord including the introduction of the Basel, Pillar 3 requirements concerning risk disclosures in the banking sector. After the GFC, banks realized that their information technology and data architectures were inadequate and they were unable to manage their risks properly because of weak risk aggregation capabilities and risk reporting practices (Bank for international settlements, 2012). In response to this, regulators and standard setters have increased the amount of pressure placed on banks to account for their risk exposures and provide more adequate risk disclosures. In view of this, ICAEW (2011a) posits that following the GFC, the issue of risk disclosure within the annual reports has gained even greater prominence. It is therefore believed that risk disclosures in the banking sector acts as an effective tool for avoiding a banking crisis (Financial Stability Board, 2012).

Banks are required to provide a description of their risk management strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance or risk appetite in relation to its main activities and all significant risks (Bank for International Settlements, 2015; UK Companies Act, 2006). In doing this, banks are also required to present a description of the process of risk information reporting provided to the board and senior management, in particular the scope and the main content of reporting on risk exposure.

Risk disclosures are mainly provided publicly through the bank's annual report and pillar 3 disclosure report. The annual report is the most common and well-known form of publishing financial reports used by firms to communicate information about their performance and structure (Stone, 1967; Walton and Aerts, 2006; Edwards, 2018). The pillar 3 risk disclosure requirements on the other hand require banks to publish a report on their risk profile, how they manage and mitigate these risks, as well as provide information on the frequency of disclosure (Bank for International Settlements, 2015). Even though the Pillar 3, Basel requirements for instance require banks to provide information in a stand-alone report on what risk information banks should disclose and when they are to be disclosed, the banks have the discretion to choose how widely the disclosure requirements should apply (Bank for International Settlements, 2015). Therefore, the management of these disclosures is essential to the outcome of the disclosure output in ensuring that information users are well informed.

Considering the role of risk disclosures, it is worth noting that the attitude of accounting information users towards a firm's current risk disclosures would depend on the users' perceptions on previous risk disclosures provided by the firm. Therefore, the production of risk disclosures requires the attention of preparers who are expected to engage with the varying demands of users and to understand the expectations of information users. Additionally, preparers are expected to provide users with disclosures that are not just in line with the regulatory disclosure requirements but also reflect the actual risk profile of the firm in a clear and concise manner. It is believed that management plays a vital role in the provision of quality risk disclosures and a lot of time and effort is spent by management in preparing them. However, due to users' needs and expectations, the management of corporate disclosure has become more difficult (Mayorga, 2013; Amel-Zadeh *et al.,* 2019).

1.3 Problematization and research objectives

Risk information and the internal and external disclosure of risk plays a vital role in developing a firm's awareness of its risk position in order to support informed and efficient capital allocation decisions. It is expected of firms as part of their risk reporting responsibilities to keep their information users well informed of their risk exposures and how these are being managed in order to facilitate informed economic decision making. In relation to this, prior studies highlight that information users can exploit risk information through enhancing their ability to identify, anticipate and assess the firm's key risk exposures (Linsley and Shrives, 2005; Abraham *et al.* 2012). Therefore, firms need to ensure that adequate risk disclosures are provided in order to protect information users by overcoming the information asymmetry and enhancing capital market efficiency. In relation to this, risk disclosures play a role in both the stewardship responsibilities of management in the process of risk disclosure and the decision making by key stakeholders. Therefore, risk disclosure quality can be assessed through the processes enacted by management and the understandings of information users on the quality of the risk disclosures provided.

On one hand, there is evidence from prior studies on the provision of disclosure quality with particular focus on disclosure quality specifications such as; readability, informativeness, quantity, and reporting style (Ryan, 2012; Kravet and Muslu, 2013; Abraham and Shrives 2014). On the other hand, despite the importance of management's involvement in the risk disclosure process and their impact of disclosure choices, there is little research on how risk disclosures are designed and developed in order to convey risk information to its users. Having said this, very little is known about the current expectations for disclosure quality specifications from the understanding of information users themselves (Solomon *et al.,* 2000; Bean and Irvine, 2015).

Users' understandings and perceptions on corporate disclosure depends on their experiences with the disclosures received in the past and how that has reflected the firm's actual performance. The global financial crisis 2007-2008 is a good example as it drew the attention of stakeholders to the inadequacy of the disclosures at the time in predicting the risk perceptions and risk attitudes of the bank prior to the crisis. This hindered their ability to judge the risks faced by banks during the period prior to the crisis (Scannella and Polizzi, 2018). As a result, banks are subject to stringent regulations to ensure that adequate corporate disclosures are provided. It is argued that banks do have an internal process for managing compliance with disclosure requirements (Gibbins *et al.,* 1990, Mayorga, 2013). These internal processes are highly dependent on the firms' systems, people, and structures.

Existing research on risk disclosure finds that, another way of improving risk disclosure in the annual reports is the continuous consideration of investor needs (ACCA, 2008; ICAEW, 2011b; Mayorga, 2013). According to Mayorga (2013), common issues associated with the disclosure of material information arise primarily from the perceived high costs associated with not meeting regulator and market expectations. Despite the effect of users' expectations on the disclosure management process, the way in which risk disclosures are managed to incorporate and to meet user expectations and user needs have been rarely explored.

In response, this study aims to contribute to the accounting literature by providing insights into the different roles and responsibilities associated with the production of risk disclosures and the decision choices involved in the first instance. This study particularly provides insights on users' expectations for risk disclosure quality from the understandings of information users and management's response to these expectations. This is the first study to explore how preparers manage and respond to the users' expectations for quality risk disclosures through the perceptions of both preparers and users in the banking sector.

In recent times the banking sector has been subject to scrutiny for providing little information on risks leading a number of corporate scandals (e.g., the recent PPI scandal which hit £50bn after claims rise at Lloyds and Barclays in 2019) (Financial Times, 2019). The banking sector has been chosen because it has been hugely affected by a number of corporate scandals and crisis, including the GFC, the Eurozone crisis and the Chinese stock market crash which have affected the banking sector Elamer *et al.* (2020). As a result, these scandals and crisis have increased the demand for banks to provide enhanced and adequate risk disclosures.

To achieve the objectives of the current study, the study argues that in order to explore disclosure quality from the understandings of information users, it is important to examine the management's existing processes and systems that underlie the disclosures they convey.

Whilst there have been studies on the management of corporate disclosure, there is currently a research gap on the degree to which management incorporates user expectations in the disclosure process (Holland and Stoner, 1996; Mayorga, 2013; Mayorga and Trotman, 2016; Johansen and Plenborg, 2018; Amel-Zadeh *et al.,* 2019). This is important because managing the disclosure of material information reflects the nature of learning how to identify users' expectations and how to meet the disclosure expectations of different user groups (Holland and Stoner, 1996; Mayorga 2013).

In view of this, the current study aims to contribute to this stream of literature. Specifically, the study pursues three primary research objectives. Firstly, the study explores the definition of risk from the perspective of both preparers and users. Despite the amount of research conducted on risk and risk management, there is currently no agreed definition on the definition of risk (Elshandidy, 2011; Ibrahim and Hussainey, 2019). Prior literature provides several definitions of risk ranging from the idea of risk as anything that can result in a loss or a negative outcome (Lupton, 1999; Horcher, 2005), to risk that carries the potential of either a gain or a loss (Hodder *et al.,* 2001; Linsley and Shrives, 2006; Mokhar and Mellet, 2013). In order to explore the users' expectations for risk disclosures and the perceptions of preparers, the researcher believes that it is important to identify their views on the concept of risk. Variations in the meaning of risk from different user groups is an area that is currently lacking in the risk disclosures literature. In an effort to interpret the risk disclosure practice, this study investigates participants' views on the concept of risk before assessing their perceptions on the risk disclosures.

Secondly, the study explores users' expectations for risk disclosure and investigates management's response to these expectations. This is aimed at identifying any potential causes for a discrepancy between what users expect and management understanding of users' expectations. It is also believed that the users' expectations for corporate disclosure is an important consideration for management's disclosure decision making (Mayorga, 2013; Mayorga and Trotman, 2016). Despite arguments from these studies on the importance of seeking users' perspectives during the construction of corporate disclosures, research in this area is limited. It is worth noting that these studies explore the management of disclosures with the context of a range of sectors including the financial sector and not predominantly the banking sector. This study explores this within the context of the UK banking sector predominantly in an attempt to offer new insights on the phenomenon.

And thirdly, the study investigates the process within management for the design and development of risk disclosures in light of users' expectations and other antecedents. In achieving this objective, the study aims to investigate the role and responsibilities of management in the provision of risk disclosures as well as the degree to which user expectations may be incorporated within the risk disclosure process. Following on from this, the study identifies the challenges faced by management in their risk disclosure process.

Accounting research on the roles and responsibilities of management in the provision of corporate disclosure as well as how these roles are assigned and guided is limited. According to Amel-Zadeh *et al.* (2019, p2), "*one impediment when it comes to understanding who, when, and to what extent* *different managers are involved in creating disclosures is that disclosures are prepared privately within firms and the process is therefore not publicly disclosed*".

In the UK, and under the risk disclosure requirements, firms are required to immediately inform the market of any material information that could alter their economic decision making. Although regulators and standard setters provide guidance on what information is required to be disclosed, in what form and when it should be disclosed, there is little to any guidance on how these should be designed or developed. The lack of requirements in this area suggests that managers are effectively able to choose the process that they feel is appropriate for the creation of disclosure documents as long as the final document conforms to expectations. Thus, these disclosure requirements implicitly assume that companies have in place responsive internal control systems to manage compliance (Mayorga, 2013). However, there is little information on the processes enacted by management when deciding what to disclose and what not to disclose. This is particularly true for risk disclosures. Such information is important as it provides users with a deeper understanding of the degree to which risk disclosure decisions are assigned and guided, the activities involved and the range of issues considered in the disclosure management process (Gibbins *et al.,* 1990, Amel-Zadeh *et al.,* 2019). This is an area suggested by prior researchers requiring further attention in relation to how a firm's internal control affects its efficiency to externally report its risks (Elshandidy *et al.,* 2018).

In an attempt to contribute to this stream of literature, this study aims to explore the management of risk disclosures with particular focus on users' expectations for risk disclosure quality and management's response to these expectations. This research particularly examines this within the context of banking considering the magnitude of risk this sector is exposed to. Mayorga (2013) finds that the issues with the disclosure of material information arise primarily from the perceived high costs associated with not meeting regulator and market expectations. The reality is when it comes to disclosure everyone wants something different and there can be a variety of audiences whose different information needs are expected to be met and this can be really difficult. Getting the balance is therefore critical. ICAEW (2011) also highlights that one of the ways of improving risk disclosure in the annual reports, for instance, is the continuous consideration of investor needs. Thus, companies should report to their users what they need to know to make their risk assessment of the company's principal risks.

1.4 Research motivations and research questions

The provision of risk disclosures within the banks' annual and pillar 3 reports is a requirement and there are a number of expectations around a bank's compliance with these requirements. In response to this and in the awakening of events that may have disclosure implications, management has processes in place to respond to these events. These include the use of specific activities and procedures as well as the influence of the individuals and groups involved in the disclosure process exerted to ensure compliance (Gibbins *et al.,* 1990). The objectives of this study is motivated by the researcher's attempt to explore users expectations for quality risk disclosure and the degree to which risk disclosures are managed to incorporate these expectations.

A number of studies on the ways in which corporate disclosures are managed and constructed have adapted and developed the Disclosure Management Framework initiated by Gibbins *et al.* (1990) (Holland and Stoner, 1996; Mayorga, 2013). The initiated framework has been adopted and developed by a number of researchers to include the identification of the locus of disclosure responsibility (Holland and Stoner, 1996; Mayorga, 2013; Johansen and Plenborg, 2018), the range of issues considered when making disclosure decisions (Mayorga, 2013), and the impact of disclosure regulations on disclosure decision (Johansen and Plenborg, 2018).

Although a number of these studies have been useful in identifying the different variables that influence disclosure as well as the relationships that may exist among these variables, there is little evidence on the specific processes used by firms when fulfilling disclosure responsibilities.

Additionally, these studies find that managing the disclosure of material information reflects the nature of learning how to identify users' expectations and how to meet the different audience disclosure expectations (Holland and Stoner, 1996; Mayorga 2013). However, little is known about the capital market's perception of the disclosures provided and management's response to these. Nevertheless, to enable an improved understanding of the role of risk disclosure, the perceptions and expectations of risk information users as well as management's response to these need to be explored. The way management responds to the user's demands for risk disclosure could impact the way users react to any information provided about a change in the firm's performance. This study contributes to the accounting literature by addressing the following research questions.

RQ1: How is risk defined from the perspective of both preparers and users of risk disclosures?

Research on the variations in the meaning of risk from the perspectives of different user groups is limited. The researcher believes that in order to understand the views of preparers and users on risk disclosure, it is important to identify what they refer to as risk. This provides an opportunity to identify any varied views expressed by participants on the concept of risk and its definition.

RQ2: What are the users' expectations for risk disclosure quality and how do managers learn about and manage their responses to users' expectations?

Risk disclosure research on users' perceptions and expectations for quality risk disclosure is limited. An exception to this is Solomon *et al.* (2000) and Bean and Irvine (2015) who examined the attitudes of UK institutional investors and analysts towards risk disclosure. This study contributes to the existing risk disclosure literature by identifying and exploring users' perceptions and expectations on the current quality of the risk disclosures provided as well as management's response to these expectations. Users' perceptions and expectations for risk disclosures were obtained from semi-structured interviews conducted with users who have an interest in the risk disclosures provided by the UK listed bank chosen for this research. Secondly, the researcher attempts to identify and explore management's response to these expectations using concepts from the Gaps Model Framework (Zeithaml *et al.,* 2002).

RQ3: What are the processes preparers enact for the design and development of risk disclosures and the challenges faced in this process?

Following on from the findings of Gibbins *et al.* (1990), Holland and Stoner (1996), Mayorga (2013) and focusing mainly on the annual report and the pillar 3 risk report, the study explores the process of designing and developing risk disclosures within the context of a UK listed bank. The study also explores the degree to which risk disclosure responsibilities are assigned and guided within the bank.

Prior studies on the management of corporate disclosure find that companies do employ a variety of individuals, processes, and guidelines to manage compliance. Mayorga (2013) identifies that a firm's compliance with disclosure demands often includes established structures such as training, routine responsibilities, reviewing and authorizing accounts as well as procedures for releasing information and responding to analysts and investors. However, research on how managers participate in specific accounting phenomenon, such as risk disclosure is rare. This study aims to explore the different roles involved in providing risk disclosures, specifically in the banking sector, and the degree to which their responsibilities are guided throughout the risk reporting process.

Prior studies on the management of corporate disclosure have often conducted their studies with more than two different sectors including the financial sector and this has provided generic information on the roles and responsibilities of management in the provision of corporate disclosure. Therefore, exploring this within a specific industry such as the banking sector, where firms have different and unique features as compared to the non-financial sector, will provide deeper insights within a specific context.

There has been a number of studies in the disclosure literature on how different users of corporate disclosure can be provided with adequate information that will enable them to assess the firm's risk profile (Meidell and Kaarbøe, 2017; Johansen and Plenborg, 2018; Amel-Zadeh *et al.,* 2019). However, considering the importance of risk disclosures there is currently no research to date on how risk disclosures are managed and provided to users. This area has been rarely explored in the risk disclosure literature. In an attempt to contribute to the risk disclosure literature, the current study examines the management of risk disclosures from the understandings of both prepares and users of risk related information.

The study explores risk disclosure in the UK for the following. The UK provides a unique context to analyse risk disclosure. Risk disclosure in the UK, especially in the banking sector, is considered an important tool in ensuring market discipline. Additionally, not all risk disclosure in the UK is quantifiable and some risk disclosures are qualitative in nature and are not immediately verifiable (Athanasakou and Hussainey, 2014).

The study then focuses on the actual process for risk disclosure, including the interactions between the individuals involved and how decisions about the content of public risk disclosures are made. With a particular focus on managing user expectations for quality risk disclosure, the study aimed to identify challenges that are associated with incorporating users' expectations into the disclosures. In order to answer this research question, the views from the preparers of public risk disclosures from a UK listed bank were sought through semi-structured interviews. Some information pertaining to this was also derived from the bank's recent annual report at the time of the data collection.

1.5 Research contribution

Even though there have been recent calls for research on the ways in which managers interact with stakeholders when making disclosure decisions and whether these then motivate their decision to disclose or not disclose some level of risk disclosure, research in this area is scant (Elshandidy *et al.,* 2018; Amel-Zadeh *et al.,* 2019). In an attempt to extend studies by Solomon *et al.* (2000), Marorga (2013), Mayorga and Trotman (2016), and Johansen and Plenborg (2018), This study contributes to the limited risk disclosure literature by examining how preparers incorporate users' expectations when setting up their risk reporting. This study particularly examines management's responses to users' expectations for risk disclosure quality in the banking sector and these expectations motivate their risk disclosure decisions. Prior to this examination, the study examines users' perceptions and expectations for risk disclosure quality.

The study recognizes the need to engage with information users so as to provide insights into what their expectations for risk disclosure quality are, and their perceptions on how the current risk disclosures provided match up to these expectations. This study thus responds to the call for research that seeks to address stakeholder perceptions on risk disclosure (Mayorga, 2013; Johansen and Plenborg, 2018). This study explores this within the context of the UK banking sector.

Moreover, this study is the first study to explore how preparers manage and respond to the users' expectations for quality risk disclosures through the perceptions of both preparers and users.

Methodologically, prior studies have mainly adopted a content analysis and statistical approach to risk disclosure. These studies have been useful in providing an understanding on the different firm specific characteristics and variables associated with the disclosure output as well as the relationships between these. However, such an approach does not allow for an understanding of managements' practices and processes for risk disclosure. As a result, the current study provides rich insights into new research fields by adopting a qualitative case study approach to allow for an exploration of users' and preparers' perceptions on the management of risk disclosures.

Furthermore, the study contributes to research by developing a theoretical framework that guides the insightful discussion of management's approach to incorporating users' expectations for risk disclosure quality. The current study does this by combining concepts from both the Disclosure Management Framework and the Gaps Model of service quality. These are discussed in more detail in the theoretical chapter later in this thesis.

Theoretically, the current research questions where arrived at by firstly spotting existing gaps in the Disclosure Management Framework initiated by Gibbins *et al.* (1990). At the initial stages of the researcher's Ph.D. experience, while identifying possible gaps in the literature to explore, the Disclosure Management Framework initiated by Gibbins *et al.* (1990) was identified. The Disclosure Management Framework presents a structure to inform the activities, procedures, individuals, or groups involved in the corporate disclosure process.

The framework had been criticized for its oversimplification and failure to identify the relationship between the relationships of its components (Holland and Stoner, 1996; Mayorga, 2013). Even though prior studies that adapted this model identified user-expectations as a disclosure antecedent that may influence the disclosure process, the framework provides limited scope for exploring the degree to which user-expectations are incorporated in the disclosure management process. Further to this, the current study identified the Gaps model of service quality (Parasuraman *et al.,* 1985; Zeithaml *et al.,* 2002) to serve as a lens for exploring users' expectations for risk disclosure quality and management's response in translating their perceptions on these expectations into disclosure quality specifications. The study argues that in order to explore the degree to which risk disclosures are managed to incorporate user expectations it is important to first investigate what these expectations are and any efforts made by management to obtain such information. Therefore, the study begins with the Gaps Model and identifies any potential causes for a discrepancy between users' expectations for risk disclosure and management's understanding of these expectations.

However, the application of the Gaps Model as a tool for exploring the management of disclosure is limited in scope. The Gaps Model does not provide a clear approach to examine the decision choices taken by management in translating their perceptions of users' expectations or in ensuring that their perceptions of users' expectations are incorporated in the actual disclosures provided. For this reason, concepts from the Disclosure Management Framework (Gibbins *et al.,* 1990; Mayorga, 2013; Johansen and Plenborg, 2018) were introduced to explain how the internal decision-making process is undertaken by management in translating their perceptions of users' expectations into disclosure quality specifications. This is where the current study combines both theories in order to provide insights and develop a theoretical framework in the process (Ryan *et al.,* 2002, p150).

1.6 Theoretical background

The current study draws on concepts from the Disclosure Management Framework initiated by Gibbins *et al.* (1990) in combination with the Gaps Model of service quality. The Disclosure Management Framework presents a structure to inform the activities, procedures, individuals or groups involved in the corporate disclosure process. The interest in applying the Disclosure Management Framework to understand how preparers make disclosure decisions is the fundamental motivation behind this research. Specifically, the issue of user expectations as a key antecedent of the corporate disclosure process. However, due to the oversimplified nature of the existing Disclosure Management Framework, there is limited scope for exploring this objective in detail. As a result, the current study also uses the Gaps model of service quality in combination with the Disclosure Management Framework to frame the valuable insights on preparers interaction with users during the management of risk disclosures. This process is explained in more detail in chapter 4.

1.7 Philosophical and methodological stance

The current study is in line with a broad research paradigm with the view that facts and values are inevitably influenced by human interactions and interpretations (Collins and Hussey, 2014, P48). According to Ryan *et al.* (2002, p146), this approach believes that social systems are socially constructed and, as such, can be changed by human actions and the activities of individuals located within a specific social context. This philosophical notion fits into the current study's' objectives. The management of risk disclosure gives meaning to how reality is created through the decision choices taken by management when creating risk disclosures. At the same time, exploring users' perceptions and expectations for risk disclosure quality and the degree to which these are incorporated in the management of risk disclosures. The study employed a qualitative case-study approach. This study also used problematization as a methodology to challenge existing theoretical assumptions in order to construct research questions in an attempt to lead to the development of a more influential theory. This method of problematizing was adopted as it provides the researcher the opportunity to carefully record and reflect on her on-going practical experience within a highly regulated organizational and institutional environment.

In relation to data collection, the main tool used were semi-structured interviews. Focusing on a UK listed bank, the interviews were conducted with users to obtain their insights into their perceptions and expectations for risk disclosure quality. The researcher then gathered information from preparers on their process for constructing risk disclosures, their understanding of user expectations, and the degree to which their risk disclosures are managed to incorporate these expectations. The interview data includes; 4 risk reporting managers of a UK listed bank, 8 Regulators, 7 Equity research analysts and 4 fund managers from the institutional investor companies of the UK bank used in this study.

1.8 Structure of the thesis

The thesis is structured around nine chapters. This chapter had provided an overview of the research problem, objectives, research questions, and contribution. The study seeks to provide insights into how preparers incorporate users' expectations for risk disclosure quality when setting up their disclosures.

Chapter 2 explores the literature on risk disclosure and the management of corporate disclosure. This chapter mainly consists of some evidence on the developments of the risk disclosure practice, literature on risk disclosure quality, why assessing the quality of risk disclosure is important for information users as well as the key literature on the management of corporate risk disclosure.

Chapter 3 then offers an overview of the UK banking sector, its role, and characteristics, within the context of risk disclosure. The chapter also provides some details on the risk disclosure requirements and the degree of managerial discretion within its scope.

Chapter 4 provides details on the theoretical framework applied in this study, the rationale for choosing the theoretical approach and its application in this study.

Chapter 5 addresses the philosophical basis of the study as well as the research design and methodology. This includes the data collection method and the approach to analysing the data gathered.

Chapter 6,7 and 8 provides insights into the results. Within the context of UK bank risk disclosure, chapter 6 presents some findings on the researcher's attempt to conceptualize the definition of risk through the understandings of the key participants in the study (i.e. preparers, analysts, institutional investor, and the regulator).

Chapter 7 focuses on users' expectations for risk disclosure quality and management's response to these expectations. Following on from chapter 7, chapter 8 provides some findings into the process of designing and developing risk disclosures in an attempt to throw some light on the degree to which users' expectations for risk disclosures may be incorporated in the risk disclosure process.

Chapter 9 provides a synthesis and overall discussion of the main findings and results of the current study. The theoretical concepts of the Disclosure Management Framework (Gibbins *et al.,* 1990; Mayorga, 2013; Johansen and Plenborg, 2018) and the Gaps Model of service quality (Parasuraman *et al.,* 1985; Zeithaml *et al.,* 2002; Zeithaml *et al.,* 2016) as discussed in chapter 4, are employed to frame the results gathered.

Finally, chapter 10 presents the concluding chapter for the overall thesis. It summarises the research overview and provides an explanation of the key empirical and theoretical contributions of this thesis. The chapter further provides the limitations of this research. It then presents the implication of the findings for managers, academics, and risk information users. Finally, it ends with some recommendations for future research.

Chapter 2 Literature review

2.1 Introduction

This chapter reviews and discusses the literature on risk disclosure, risk disclosure practice, and risk disclosure quality, as well as to set the foundation for analysing the results gathered from this research in a later chapter. This chapter begins by discussing the concept of risk and the development of the risk disclosure practice. It then problematises the risk disclosure literature to discuss the limited attention paid by researchers to the management of risk disclosure and user-perceived risk disclosure quality. Following on from this, chapter 2 describes the elements of quality risk disclosures as stipulated in the literature, discusses user demands for risk information and throws light on the importance of quality risk disclosures. In the last few sections, the chapter discusses the role of managerial discretion in the provision of risk disclosure and explores the literature on the management of corporate disclosures. This is essential to the objectives of the current study.

Risk disclosures as a key part of a business' disclosure strategies are believed to play a key role in the stewardship responsibilities of management within the process of risk disclosure and in the decision-making actions of stakeholders. This has led to the emergence of a substantial body of risk reporting regulations on the quality of risk disclosures and the attention from different stakeholders on the impact of adequate risk disclosures on their economic decisions.

Efforts have been made by academic researchers in accounting, to provide insights into the impact of some firm characteristics on risk disclosure: profitability, corporate governance factors; company size, and company risk level, on risk disclosure (Linsley and Shrives, 2005; Miihkinen, 2012; Elshandidy *et al.,* 2013,2015; Helbok and Wagner, 2005; Nahar *et al.,* 2016; Malafronte *et al.,* 2016 and Abraham and Cox, 2007). Accounting academic researchers have also explored the impact of a firm's risk disclosure on its cost of equity and market values (Lang and Lundholm 1996; Botosan and Plumlee, 2005). These studies have mainly focused on assessing the disclosure output and the reports itself and have been useful in examining how the quantity and the quality of risk disclosures correlate with some firm characteristics. However, the key role of management and their actions in providing risk disclosures necessary for information users to make informed economic decisions have rarely been explored. A few studies have investigated how firms manage corporate disclosures and the decision choices that shape the corporate information environment (Gibbins *et al.,* 1990; Adams, 1997; Holland and Stoner, 1996; Trabelsi *et al.,* 2004; Mayorga 2013). However, to the best of the researcher's knowledge, no prior study has considered whether or how management considers users' needs when designing and managing corporate disclosures. This study, therefore, contributes to the literature on risk disclosure by exploring management's response to the users' expectations on risk disclosure quality and the degree to which their disclosures are managed to reflect these user demands.

The chapter is structured as follows. Section 2.2 discusses the concept of risk and its development in the risk disclosure literature. Section 2.3 then explains the development of risk disclosure practice. Sequentially, section 2.4 problematises the risk disclosure literature to discuss the limited attention paid by researchers to the management of risk disclosure and user-perceived risk disclosure quality. Following on from this, section 2.5 discusses the current literature on risk disclosure quality and section 2.6 explains user demands for risk information as well as the importance of risk disclosure quality. Section 2.7 then reviews the literature on the management of corporate disclosure and the chapter ends with a summary in section 2.8.

2.2 The concept of risk and its definition in prior literature

Risk has been defined as the effect of any uncertainty on the objectives of an organization or the consequences of some events from either within or outside the organization (ISO 31000, 2018; Green, 2016; James, 2014). According to the International Organization for Standardisation (ISO) 31000 (2018), the consequences associated with risk can either enhance the achievement of an organization's objectives (i.e. positive consequences) or can limit or diminish the achievement of its objectives (i.e. negative consequences). In the risk management literature, the concept of risk has evolved over the years to include both the positive and negative consequences of its effects on the organization and there is currently no agreed definition of risk. While some authors refer to the negative effects of risk, other researchers refer to both the negative and positive effects of risk in their definition of risk.

The study conducted by Elshandidy (2011) identifies three different streams of literature relating to the definition of risk. The first trend focuses on the downside or negative effects of risk such as harm, hazard, danger, damages, threats, or potential losses (e.g. Kaplan and Garrick, 1981; Akintoye and MacLeod, 1997; Lupton, 1999, Horcher, 2005 and Adams, 2009). Prior literature has referred to this definition of risk as the pre-modernist view of risk (Linsley and Shrives, 2006; Ibrahim and Hussainey, 2019).

The second trend identified by Elshandidy (2011) focuses on the fact that the concept of risk could involve either a positive effect (i.e. opportunity, prospect, and potential gain) or a negative effect (i.e. harm, hazard, danger, damage, threat, or potential loss) (Schrand and Elliott, 1998; Solomon *et al.,* 2000; Hodder *et al.,* 2001; Elmiger and Kim, 2003; Abraham and Cox, 2007; Damodaran, 2008; Elshandidy, 2011). This has been referred to as the modernist view on risk (Ibraham and Hussainey, 2019, p130).

Another stream of literature refers to risk as the variations or fluctuations or changes around a target value at a specific time horizon (Elshandidy, 2011). Such variations could either have a positive or a negative effect on the business. This definition is similar to that provided by the International Financial Reporting Standard (IFRS 4 – Insurance Contracts). The IFRS 4 standard defines financial risk as the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices rate, credit rating, credit index or other variables. Prior to Elshandidy (2011), Abraham and Cox (2007) also use risk in three texts: risk as variation (Elshandidy, 2011), risk as any uncertainty and risk as an opportunity.

These definitions provide details on how different academic authors have viewed and defined risk based on empirical evidence. It is evident that there is currently no agreed definition for risk. In relation to the current research objectives aimed at exploring user's views on risk disclosure, it is important to understand what they consider as risk and how they define risk. In response to this gap, the researcher aims to define risk based on the perspectives of the different interviewee participants in order to conceptualize and distinguish their definition of risk. This is an area that is currently lacking in the risk disclosures literature.

2.3 The development of the risk reporting practice

Originating from the 17th and 18th centuries when accounting was synonymous with double-entry bookkeeping, the term accounting in recent times has evolved over the years to include 'the preparation and communication to users of financial and economic information' (Parker, 1992, p4). This was due to the increasing demand for information on how businesses were being managed as organizations changed from being sole trading businesses and partnerships to large corporations owned by investors but managed by elected directors.

Corporate reporting further developed, particularly in the 19th century, to include the emergence of capital markets and the urgency to meet the needs of absentee investors, professional management and regulatory demands as oversea trading developed and investment opportunities became more prominent. This development led to the demand for an effective risk reporting practice which is necessary for the well-functioning of capital markets (Deumes, 2008). If investors are well-informed of the business's underlying risks and rewards, it fosters trust and confidence as well providing managers with the ability to eliminate any disparities between what investors understand and expect and what management can deliver (Hutton, 2004; Deumes, 2008). Risk as an important aspect of any business became larger and more varied in the presence of these developments and there is a growing demand for management to provide adequate risk reporting to enable users make informed decisions (CIMA, 2006). It is evidenced that keeping investors informed and engaged in the risk reporting process could reduce the chances of an investor making adverse decisions and in effect lead to an unfavourable consequence for the company and its performance (Lundholm and Winkle, 2006).

As a result of this, the rise in external reporting became part of a market-driven agenda and as shareholders and other stakeholders demanded reliable information from organizations, managers also responded by arranging for an independent audit to make credible the financial information they provide (Edwards, 2018). Even though this suggested that market forces were the driving forces for ensuring management keeps users informed, the usefulness of the financial reporting relied on the willingness of corporate managers to comply with best accounting practice.

In the early 2000's risk reporting as a vital component of corporate reporting gained much prominence, especially in the financial sector, resulting from the Global Financial Crisis (GFC) and a series of high-profile corporate failures and incidents that damaged well-known brands.

In the aftermath of the GFC, banks realised that their information technology and data architectures were inadequate, and they were unable to manage their risks properly because of weak risk aggregation capabilities and risk reporting practices (Bank for international settlements, 2012). According to KPMG (2017), these reporting issues remain unresolved and regulators are still concerned that the risk reports being generated by globally and domestically systematically important banks were based on poor quality (Bank for International Settlements, 2013). In relation to this, the regulatory reporting framework for banks in the UK has evolved rapidly in recent years to include amendments to the IASB's IFRS 7 and the requirements of the Basel Accord (KPMG, 2017).

According to KPMG (2017), regulatory bodies in the UK and supervisory authorities around the world are creating an increasingly onerous and complex issue of overlapping but often data-driven requirements. However, most banks do not have proper controls over the huge portfolio and inventory of financial and non-financial regulatory reports they must produce: risk reports, liquidity reports, stress tests, trading reports and almost countless others (KPMG, 2017).

Therefore, concerns about the quality of risk disclosures still remain. Including issues of comparability, consistency, and clarity remain unresolved.

In addition to this and despite the growth in financial disclosure regulation, much of the evolutionary nature of corporate disclosure has involved broadening non-financial disclosure. It is also believed that the accounting and disclosure of non-financial elements does not, at present, benefit from a standardised approach to corporate disclosure (OECD, 2014; ICAEW, 2017). Nonetheless, the disclosure of non-financial information has increased as companies are expected by stakeholders to provide disclosure on risks that are often very difficult to quantify and standardise (i.e. reputational risk, cyber risk, climate change risk, strategic risks) and which form part of their overall risk profile.

Considering the stakeholders' involvement in the risk reporting process, there is a motivation to explore the current state of risk reporting quality based on understanding stakeholders' perspectives for improving risk disclosure practices and overcoming the current limitations and management's response to these.

An in-depth investigation of their perspectives and actions would therefore provide insights into the degree to which management considers users' expectations for risk disclosure quality in their risk disclosure process. In relation to this, section 2.2 problematise the risk disclosure literature to emphasise the need for a study in this area.

2.4 Problematization of the risk disclosure literature

Disclosures have been judged to be risk disclosures if the reader of the disclosure report is informed of any opportunity, prospect, hazard, danger, harm or any form of exposure, that has impacted the company in the past or may impact the company in the near future or impact the management of such opportunity, prospect, hazard, harm, threat or exposure (Linsley and Shrives, 2006, p389). Prior studies find that the disclosure of risk-related information provides users with an understanding of an entity's risk profile and also with an ability to assess and anticipate the entity's future economic performance (Beretta and Bozzolan, 2004; Linsley and Shrives, 2006; Moumen *et al.,* 2016). According to Khandelwal *et al.* (2019), corporate risk disclosure provides information about the company's material risks that help stakeholders understand and evaluate the interrelated risks of the company, the effect of these risks as well as the company's risk management strategies. This information is useful particularly to investors in making pricing decisions and in enabling them to obtain the best estimate on appropriate rates on their investments. (Elshandidy and Neri, 2015).

The aftermath of the GFC, corporate failures and scandals have increased the demand for banks to provide adequate and enhanced risk disclosures. The pressures from various stakeholders resulted in the need for changes in the risk disclosure practices in the banking sector, driven mainly by enhanced regulations and guidelines established by both national and institutional bodies (Blum, 2008; and Chen *et al.,* 2014). This has also been as a result of the fact that during the GFC, stakeholders suffered some form of limitations and distortions in their understanding of the risk perceptions and risk attitudes of the banking sector, which hindered their ability to judge the risks faced by banks during the period of the crisis (Scannella and Polizzi, 2018).

Adequate corporate disclosure can play vital role in reducing information asymmetries between bank managers and investors; and reducing the probability of a banking crisis if bank managers disclose information about risks that allows those investors to correctly price the bank's liabilities (Sowerbutts and Zimmerman, 2016).

Although risk reporting is increasingly becoming an issue of particular interest to a wide range of user groups, prior studies have found the current risk disclosures as being unhelpful in conveying real meaning to its users (ACCA, 2008). And the consequences of this lack of adequate transparency could include poor market discipline which then leads to the mispricing of risk and the misallocation of capital (CFA Institute, 2016).

The pillar 3 risk disclosure requirements for financial institutions, for instance, are mainly to encourage market discipline so as to reduce information asymmetry and help to promote comparability among banks (Bank for International Settlement, 2015).

Market discipline is encouraged as it reflects the ability of investors to accurately access the bank's actual economic conditions so as to incorporate these into the banks' security prices by making economic decisions that could either favour the bank or not. Thus, inadequate market discipline may influence the process by which a security's price changes, thereby causing managers to respond to any adverse changes in their financial and economic conditions (Bliss and Flannery, 2002). Nonetheless, without accurate information about the bank's capital requirements, which constitutes a huge part of the bank's risk assessment process, it becomes difficult for users to be accurately informed in order to process the information correctly and for market discipline to be implemented.

Additionally, providing quality risk disclosure is important because, according to Deumes (2008), when investors are well-informed of the bank's underlying risk profile, it provides managers with the ability to identify and eliminate any disparities between what investors understand and expect and what management can deliver. One of the ways of then improving risk disclosure in the annual reports, for instance, is the continuous consideration of investor needs (ICAEW, 2011). Thus, companies should report to their users what they need to know to make their own risk assessment of the company's risks.

In a study conducted by Mayorga (2013) on the management of continuous disclosure, Mayorga (2013) finds that the issues with the disclosure of material information arise primarily from the perceived high costs associated with not meeting regulator and market expectations. In light of this, the current study investigates users' expectations for risk disclosure quality through the understandings of information users and the degree to which management considers and incorporates users' expectations for risk disclosure quality within their risk disclosure process. The extant literature on risk disclosure in the UK has mainly examined the incentives and informativeness of risk disclosures, as well as the impact of some firm characteristics on risk-related disclosure relying largely on public signals (Linsley *et al.,* 2006; Helbok and Wagner, 2005; Nahar *et al.,* 2016; and Abraham and Cox, 2007). However, only a few studies have investigated how firms manage corporate disclosures and the decision choices that shape the corporate information environment (Gibbins *et al.,* 1990; Adams, 1997; Holland and Stoner, 1996; Trabelsi *et al.,* 2004; Mayorga 2013).

One of the earlier studies on the management of corporate disclosures in Canada, from which this study draws motivation, was by Gibbins *et al.* (1990). Gibbins *et al.* (1990) explored the management of corporate financial disclosures in Canada and developed a Disclosure Management Framework using a grounded theory qualitative approach. Gibbins *et al.* (1990, 1992) offers an understanding of financial disclosure as a managed phenomenon, using different perspectives to propose and develop a theory about managing financial disclosure, and the motivations, events, processes, structures and people behind the financial disclosures made by organizations. Prior studies on the management of risk disclosures have adopted and developed the framework initiated by Gibbins *et al.* (1990) and have been useful in identifying disclosure issues, structures, and antecedents associated with the management of disclosures in different disclosure contexts (i.e. corporate financial disclosure, price sensitive information, and continuous disclosures).

An important aspect of the management of disclosures is the management of users' disclosure expectations. Mayorga (2013) highlights that even though market expectations are one of the key antecedents in the disclosure process, it is often challenging to manage expectations of immediate disclosure in every circumstance. Prior studies (Holland and Stoner, 1996 and Mayorga 2013) find that managing disclosure of material information reflects the iterative nature of learning how to identify events which the market will consider to be material information and meet different audiences' disclosure expectations. Despite the importance of managing user-expectation in the disclosure process, the extent to which corporate disclosures are managed to identify and incorporate user expectations has been rarely explored. The section below discusses the concept of risk disclosure quality; why firm's need to provide quality risk disclosure; the literature on the management of corporate disclosures as a key underlying factor to the provision of corporate disclosures.

2.5 What is risk disclosure quality?

As explained in an earlier section the first decade of the twenty-first century and the aftermath of the GFC together with recent bank scandals has led to an increase in demand for quality risk disclosures and pressures from various users have intensified to include; a need for an increased ability to assess and anticipate a bank's portfolio of risks, improved risk disclosure quality and a reduction in information asymmetry. This has therefore drawn the attention of users of accounting information to the importance of risk-related disclosures. As a result, there is some amount of pressure on banks to provide enhanced risk disclosure quality on both their numeric and narrative risk disclosures. Accounting disclosure quality in the literature has been defined in a variety of ways and there is therefore no clear definition of what quality means when it comes to the disclosure of accounting information. This is true especially for narrative accounting disclosures (Beattie *et al.,* 2004). However, some commonalities exist among the different definitions of accounting disclosure in the literature. One of the principles of ensuring risk disclosure quality is to assess whether the disclosures are clear, comprehensive, and understandable (Bank for International Settlements, 2015). According to Hopkins (1996), disclosure quality has been referred to as the ease with which investors can read and interpret the information given in a company's accounting disclosures. However, prior studies (Abraham *et al.,* 2012) find that there is still evidence that users are dissatisfied with the clarity of the disclosures they receive.

In addition to the fact that disclosures are expected to be clear, readable and understandable, prior studies on risk disclosure quality have associated the quality of risk disclosure with the informativeness of risk disclosure in improving the users understanding of the business' portfolio of risk; the quantity of risk disclosure; and the provision of mandatory and voluntary disclosures (Ryan, 2012; Linsley and Shrives, 2006; Kravet and Muslu, 2013; Abraham and Shrives, 2014; Leuz and Wysocki, 2016).

2.5.1 The informativeness of risk disclosure

Prior studies (Linsley and Shrives, 2006; Kravet and Muslu, 2013 and Abraham and Shrives, 2014) identify informativeness as an important factor of risk disclosure quality. Abraham and Shrives (2014) measure risk disclosure informativeness as a function of three themes; disclosure should be specific; managers should evaluate their risk disclosures on a regular basis identifying significant events and prevent repetitious annual reporting, and that actual experiences are discussed in the reports. Other studies refer to risk disclosure as informative when it; reflects the business's actual portfolio of risk and predicts its financial health (Baule and Tallau, 2016). Thus, when it better identifies the business's actual economic drivers (Ryan, 2012).

However, these studies find that, companies provide a large amount of risk disclosure which are often generic in nature rather than specific and therefore the substance of the risk discussed is less informative and remains the same over time. The provision of informed and specific disclosures is important for investors because it enhances their ability to identify the different risks faced by the firm and also assess and estimate the amount and timing of future cashflows (Abraham *et al*., 2012, Linsley and Shrives, 2005).

Even though this specificity of risk disclosure is essential for informed decision making, there are different users of risk information and each user may be interested in a different category of risk-related information. Therefore, Beattie *et al.* (2004) highlight that for there to be risk disclosure quality it is important to have in the disclosures a wide spread of disclosures across topics and categories with a degree of balance (not necessarily equal coverage) seeming desirable. This does not take away the importance of specificity as an important dimension of risk disclosure quality. From the literature, it is therefore important for management to ensure that the risks disclosed reflect the business's actual portfolio of risks.

In line with the specificity of risk disclosure and the disclosure of numeric risk related information, Ryan (2012, p296) defines risk disclosure quality as the provision of financial report information that better identifies the economic drivers (e.g. exposures with market risk, credit risk, liquidity risk, or information risks) and/or conveys the statistical properties (e.g. variances and relevant covariances) of the variation in firm's future economic performance (Ryan, 2012, p296). This definition stresses on the importance of enabling users better identify the firm's actual economic drivers. According to Ryan (2012, p296) identifying these economic drivers is important for users of financial information because it enables them to understand any existing variations on a business's exposure to risk and why this variation exists.

Another stream of literature associates risk disclosure quality with the degree to which management withholds or discloses full disclosure of accounting information (King 1996; Hughes, 2006). King (1996) refers to disclosure quality as the degree of self-interested bias in the disclosure. In relation to this, Hughes (2006) examined the impact of the litigation environment on the quality of discretionary disclosure. Hughes (2006, p56) distinguished among *full disclosure*, where the manager makes a truthful and precise disclosure or one that can be inverted through the managers private signal; *partial disclosure*, where the manager adds noise to his or her signal about future earnings; and *biased disclosure*, where the manager adds a deterministic bias to her signal under conditions that do not allow precise reversal of the bias. Thus, enhanced risk disclosure quality is associated with full disclosure and the provision of truthful and precise information, where there is no or very little self-interested bias.

Some empirical papers (Hodder *et al.,* 2006; Cohen *et al.,* 2009; Abraham and Shrives 2014) refer also to risk relevance, which can be assumed to imply enhanced risk disclosure quality (Ryan, 2012). These studies perceive disclosure as risk relevant if it has explanatory power for measures of a firms' risks, both systematic risks (e.g. beta, cost of capital, and valuation multiples), and total risks (e.g. share return variance) or downside risk (e.g. probability of default and loss given default). This is in line with Ryan (2012) definition of risk disclosure quality where risk disclosure quality refers to financial information (e.g. bets, cost of capital, share return variance) that better identifies the firm's economic drivers and financial performance. Thus, the disclosure should be clear and explanatory the best way possible to enable users make well informed economic decisions.

2.5.2 The quantity of risk disclosures provided

Beattie *et al.* (2004) identify disclosure quantity, relative to a firm's size, as one dimension of disclosure quality. Beattie *et al.* (2004) argue that, quality is not synonymous with quantity. This is in contrast to prior studies which assumes that the significance of a disclosure can be meaningfully represented by the quantity of information disclosed (Deegan and Gordon, 1996; Gray *et al.,* 1995; and Unerman, 2000). In addition to this, Miihkinen (2012, p 437) find that there are more extensive and more comprehensive risk related information with an increase in the quantity of risk disclosures provided.

Beattie *et al.* (2004) argue that a primary attribute of disclosure quality is likely to be the actual amount of the disclosure, relative to the amount expected, given the company's size and complexity. In the UK for instance, banks provide risk related information publicly mainly through their annual reports and pillar 3 risk disclosure reports, which tends to be 100s of pages long. Gray *et al.* (1995) argue that, the overload of accounting information can cause users to lose some key risk information or make it difficult for users to identify the most significant information. In relation to this Gray *et al.* (1995, p84) posit that this issue can be mitigated to a degree by attempting to assess the quality of the information disclosed by first assessing whether the statements made are quantitative (financial or other numeric) or declarative and second, whether the statement refers to events which reflects well, badly or neutrally on the reporting entity.

2.5.3 The provision of mandatory and voluntary risk related disclosures

As a result of the concerns regarding the disclosure of risk related information, regulators and other standard setters have introduced a number of risk related disclosure standards and have altered the nature of accounting that is mandated (Hernández, 2003). Disclosure regulations and requirements are primarily intended to improve the informativeness of financial reporting information by forcing companies to provide certain information in order to protect investors and assist them in making informed decisions as well as ensure capital market efficiency. For this reason, it is expected that the compliance with disclosure regulations should improve financial reporting quality and enhance the reliability and transparency of financial reporting (Abayo *et al.*, 1993; Brown and Tarca, 2012). Therefore, it could be argued that regulations contribute to better quality disclosure.

Prior studies (Rajgopal, 1999; Pérignon and Smith, 2010) have indicated that the increase in risk related disclosure regulations have had a positive impact on risk reporting and have limited discretion by mandating risk disclosures by type and format. According to Leuz and Wysocki (2016), mandatory disclosure is used in lieu of financial reporting regulation that explicitly prohibits certain behaviours, the idea being that mandated disclosure and transparency incentivize desirable behaviours and discourage undesirable ones. In contrast, Baule and Tallau (2016) argue that, despite the continuous increase in the complexity of the Basel risk disclosure requirements for instance, especially in the aftermath of the global financial crisis, their effectiveness in reflecting a bank's actual portfolio risk and in predicting their financial health is limited. In addition, Miihkinen (2012) find that the quantitative risk related disclosures, as guided by the regulators and standard setters, are less extensive and comprehensive.

Even though the aftermath of the GFC has increased the number of prescribed rules guiding the disclosure of risk related information in the UK banking industry, there still exists some form of managerial discretion. The regulatory requirements of risk disclosure provide a very standardised guidance for the disclosure of credit risks, market risks and other quantitative risk related disclosures and very limited guidance for the operational risks and risks that rely on managements' inherent judgement when it comes disclosure of such risks (Mayorga, 2013). Reporting regulation in highly regulated countries such as the UK tend to focus on a narrow set of risks, primarily market and credit risks, and risks connected with the use of financial instruments.

In line with this, prior studies argue that, allowing for some form of managerial discretion allows firms to provide risk related disclosures in the form of voluntary disclosures which then enables firms to discuss issues that are unique to their environment (Abraham and Cox, 2007; Abraham *et al.,* 2012). However, there is also the risk that non-compliance will be high if disclosure were to be made voluntary. Furthermore, although it is possible under regulatory disclosures to initiate legal proceedings where company directors withhold material information, shareholders and other users are not necessarily protected within a voluntary framework (Solomon *et al.,* 2000). Thus, there are potential concerns regarding both forms of corporate disclosure.

In relation to this, there is evidence supporting the view that a balance between mandatory and voluntary disclosure is important as the two forms of disclosure complement each other (Einhorn's, 2005; Bagnoli and Watts',2007 and Elshandidy *et al.,* 2015). Gigler and Hemmer (2001) and Butler, Kraft and Weiss (2007) also find mandatory disclosure to be substantive for voluntary disclosure. In relation to the above, Kravet and Muslu (2013) caution against more mandatory disclosures in that, companies may technically comply with the regulations without providing useful and informed risk disclosures. Prior studies also raise concerns over the increase in regulations and over the quality of risk disclosure (Dobler, 2005; 2008; Dobler *et al.,* 2011). The findings from Solomon *et al.* (2000) show that, most users, especially institutional investors, are averse to a legal framework for corporate disclosure and emphasise the importance of voluntary disclosures in providing context to the standardised disclosures provided in the firm's financial reporting. The section below provides a discussion in the motivations and incentives for management's discretion when providing corporate disclosure.

2.5.3.1 Motivations for discretionary disclosure

When it comes to the disclosure of accounting information, prior studies highlight that, management's disclosure choices are not always directly related to the economic incentives generated by market forces (e.g., Aguilera and Cuervo-Cazurra, 2004; Judge *et al.,* 2010; Chen and Roberts, 2010; Elshandidy *et al.,* 2015). It is believed that firm's disclosure choices may also be subject to institutional pressures or even to the best practices among their competitors (e.g., Aguilera and Jackson, 2003). The neo-institutional theory comprises both institutional and market pressures which provides insights into how the provision of risk disclosure could stem from different pressure levels (e.g., Chen and Roberts, 2010; Elshandidy *et al.,* 2015). In addition to this, the regulatory theory provides a conceptual basis for the disclosure of mandatory information necessary to compensate for market failures (Dobler, 2008).

It is believed that, managers may have higher risk incentives to issue less readable disclosures (Chakrabarty *et al.,* 2018). Prior studies also find that, management may have an incentive to signal the possibility of higher risk in advance, through their disclosures, in order to reduce the possibility of shareholder litigation that might be triggered by withholding such information (Hassan and Romilly, 2018; and Lemma *et al.,* 2018). Other studies also suggest that, managers may release good news prior to raising external finance and delay the disclosure of bad news (Frankel *et al.,* 1995; Lang and Lundholm, 2000 and Kothari *et al.,* 2006). This relates to the incentive management may have to reduce their cost of debt and equity by providing a certain level of corporate disclosure. There is some evidence that firms that provide timely and detailed disclosures reduce lenders' and underwriters' perceptions of default risk for the disclosing firm, reducing the cost of debt (Sengupta, 1998, p459).

In relation to this, there have been some arguments in the literature on managements' motivations for discretionary disclosures and voluntary disclosures in the banking sector. These arguments have been based on areas covering information risk, agency theory (e.g. Abrahim and Cox, 2007), signalling theory, institutional theory and political cost theory (Helbok and Wagner, 2005; Elshandidy *et al.,* 2015).

From an information risk perspective, the return on an investment demanded by the investor depends on the level of information and disclosure provided to them by the bank. In relation to this, a few studies (e.g. Lang and Lundholm, 1996; Botosan and Plumlee, 2005 and Lemma *et al.,* 2018) have found that firm's making better quality disclosure and providing an increase in the information disclosed are often rewarded with a lower cost of capital. However, Heinle and Smith (2017) argue that only risk disclosure concerning systematic risk, will impact the cost of capital. Prior studies argue that adequate risk disclosures that represents risks inherent in the entire market segment reduces uncertainty for all firms in the economy and reduces the aggregate cost of capital (Heinle and Smith, 2017, p1479)

Additionally, Lang and Lundholm (1996) highlight that companies whose disclosure processes are more future oriented can attract a lower cost of capital by improving the accuracy in market expectations provided in their disclosures, reducing information asymmetries and also limiting market surprises. Botosan and Plumlee (2005) also found some evidence to suggest that managers might achieve a favourable cost of capital by choosing accounting policies and disclosure practices that increase the quality of their overall information set. These findings tend to suggest that managers may have an incentive to manage their disclosure practices so as to achieve some cost of capital benefits.

Eisenhardt (1989) highlights that, agency theory stems from an economic view of risk-sharing between a principal (e.g. managers, creditors) and an agent (e.g. shareholders), where each of these two parties possess different approaches to solving issues and may be subject to different risk attitudes which in turn could give rise to an agency conflict. Helbok and Wagner (2005) argue that, in an agency conflict between the shareholder and the creditors, where the firm has high leverage ratios which could potentially lead to a high risk of bankruptcy, management may have an incentive to provide more disclosure in an attempt to lower the conflict between shareholders and creditors. From an agency theory perspective where there exists an agency problem between the shareholders and the creditors, resulting from a higher leverage taken by management, agency theory suggests that this conflict may lead to an effective incentive for company managers to avoid the risk of a bank failure (Helbok and Wagner, 2005). This is because, providing more disclosures, in this instance, may reduce the costs due to conflicts between shareholders and creditors. On the other hand, Helbok and Wagner (2005) argue that, for banks that are reasonably leveraged but are highly capitalised, management may have an incentive to choose not to disclose in an attempt to reduce a conflict between management and its shareholders. Thus, whereas highly leveraged banks might give priority to trying to lower the conflicts between creditors and shareholders by choosing to increase disclosure, highly capitalised banks, which outsiders may believe are unlikely to fail, may give priority to reducing the conflicts between the bank managers and the shareholders by choosing not to disclose some information on the adequacy of their capital.

Another motivation for disclosure or non-disclosure is followed by the idea of the political cost theory advanced by Watts and Zimmerman (1986). Watts and Zimmerman (1986) suggest that, banks disclose information to ward off unwanted attention by the supervisor. Given the supervisors' role in ensuring the stability of the banking system, regulators must specifically focus on under-capitalized banks which are less likely to withstand a potentially large capital absorbing operational loss, thus providing an incentive to such banks for higher disclosure (Helbok and Wagner, 2005).

Finally, from a signalling perspective, banks may have an incentive to make certain disclosure decisions in an attempt to signal their competence to the market. In an example given by Helbok and Wagner (2005) during the early 2000's when concerns for operational risk where emerging. Helbok and Wagner (2005, p11) argued that banks that have less capacity to absorb major operational risk losses might be more concerned about the existence and relevance of operational risk within their institutions. They suggest that these high performing institutions may have an incentive to voluntarily disclose information about their capabilities for operational risk and how it's being managed in an attempt to distinguish themselves from other firms (Verecchia, 1983; Welker, 1995).

2.6 Users' demands for risk information and the importance of risk disclosure quality

Accounting information is an important aspect of any business because it allows capital providers (i.e. shareholders and creditors) to evaluate the potential return on their investment and other investment opportunities (i.e. the ex-ante or valuation role of accounting information) as well as to monitor the use of their capital once invested (i.e. ex-post or stewardship role of accounting information).

In relation to this, Beretta and Bozzolan (2004) highlight that, the demand for a firm's accounting information by its users arise for two main reasons. First, ex-ante, the providers of corporate disclosure typically have more information about the expected profitability of the firms' current and future investments than its users. This information asymmetry problem is exacerbated because providers of such information may have an incentive to exaggerate their firm's projected profitability, which may lead to a potential market failure. In relation to this, there is a demand from users expecting the regulator to intervene and ensure that they are protected from material levels of information asymmetry (Beretta and Bozzolan, 2004). Secondly, ex-post, Beretta and Bozzolan (2004) suggest that the ex-post demand for accounting information arises from a separation of ownership and control, which results in investors especially not having full decision-making rights as to what information should be disclosed.

In the aftermath of the GFC, the demand for a more transparent and accurate risk reporting practice became more prominent and the attention of information users were drawn to the importance of risk related information. For this reason, there is currently some amount of pressure on firms to provide enhanced and adequate risk disclosures (Mokhtar and Mellet, 2013; Solomon *et al.,* 2000; Financial Stability Board, 2016; Financial Reporting Council, 2018b). This was particularly true especially for institutional investors, financial analysts and the regulators as primary users of accounting information.

One of the primary functions of a firm's financial reports is to provide information to external users on the operational activities and financial performance of the firm. As such, the attitudes of accounting information users towards the current state of corporate disclosure would depend on the relevance of the information disclosed for economic decision-making. Solomom *et al.* (2000) investigated the attitudes of UK institutional investors towards risk disclosure by UK companies. Solomon *et al.* (2000) find that, institutional investors believe that increased corporate disclosure would help their portfolio investment decision-making and they would therefore welcome any process that encourages the disclosure of additional risk information. According to Hirschman (1970) there are two main choices available to institutional investors when they are unhappy with a particular portfolio firm: they could either engage with management directly to try to effect change, or they could exit the firm by selling their investment. These concerns may be related to the firm's corporate governance or corporate strategy of which accounting and the disclosure of accounting information is a big part of (McCahery *et al.,* 2016). Prior studies have also shown that the threat of exit demonstrated by investors can serve as a form of discipline to management (McCahery *et al.,* 2016). For this reason, management may have an incentive to provide a certain level of disclosures in an attempt to foster trust and confidence in their investors.

Financial analysts are both primary users of financial information and key information intermediaries between the target company and its investors. Therefore, as analysts, their needs should be considered, not just by management in the preparation of accounting disclosures, but also when regulators establish accounting policies and standards (Garcia-Meca and Martinez, 2007). For financial analysts, their assessment of the risk disclosures provided is important when analysing stocks and making recommendations in the valuation process of a target company, as such assessments affects the risk perception of investors (Hope *et al.,* 2016). It is therefore important for such information to be value-relevant (Flostrand and Strom (2006). Information has valuation relevance if it is forward-looking and if it is used by the analyst or other users in their valuation process or decision-making processes (Flostrand and Strom, 2006; Breton and Taffler, 2001).

Financial analysts often base their valuation process primarily on their evaluation of a target company's earnings relative to its balance sheet and cash flow evaluations, the analysis of this financial data, the firm's discretionary reserves, allowances, off-balance sheet assets, and other operating data (Previts *et al.,* 1994; Rogers and Grant, 1997). Financial analysts also make use of the firm's non-financial disclosures including company risks, anticipated changes, competitive position, management and strategy. Prior studies also find that, financial analysts focus more on information relating to the firm's new investments, firm credibility, consistency of strategy and its strategic alliances and agreements (Garcia-Meca and Martinez, 2007). Therefore, the quality of such information provided within a target company's disclosures is key to the decisions made by analysts in their valuations.

Bean and Irvine (2015) examines analysts' perceptions on the usefulness of derivative disclosure in corporate annual reports from a credit analysts' point of view in four Australian banks. Their findings suggest that analysts perceive the current corporate disclosures as uninformative and generic in the sense that they focus on year-end positions with very little detail on risk and risk management practices. In this instance, there is the concern that companies may hold different positions during the year that what is provided in their disclosures at the end of the year. Their findings further suggest that the disclosure provided were inadequate to reflect the company's actual use of derivatives throughout the period. There has been an increasing concern from practice that disclosures are growing in length while decreasing in information value, with poor disclosure quality limiting its usefulness to information users.

The regulator plays a key role in the provision of quality risk disclosures. Not only is the regulator responsible for providing guidelines and requirements for the provision of adequate risk disclosures, they are also users of the firm's risk disclosures in ensuring that organisations are operating in a sound and efficient manner.

In the UK, the Financial Reporting council (FRC) is particularly responsible for promoting transparency in businesses with a particular focus on ensuring that investor and other stakeholder needs are met. Despite an increase number of regulatory guidelines and requirements on corporate disclosure and reporting it is believed that there is still more scope for improvements (FRC, 2019). It is expected that management discusses within their corporate disclosures forward looking information, the potential impact of unknown and emerging risks and opportunities on future business strategy and the carrying value of assets and the recognition of liabilities. The FRC (2019) highlights that in instances where the firm fails to discuss such risks and opportunities in its disclosures, it can lead to the conclusion that management is not aware of the potential impact of its risks and it's not managing them effectively (FRC, 2019). This could in turn hamper on the stakeholder's trust in the business and how it is being run.

The FRC engages with users on projects in an attempt to summarise their observations on what users are interested in when it comes to their analysis of a firm's activities and performance, as well as to encourage firms to consider adopting these stakeholder interests into their governance and disclosure practices (FRC, 2017; 2018b). Although reports on internal control over financial reporting and risk related disclosures may be instrumental in restoring confidence in the integrity of financial reporting, the reporting of organisational risks must satisfy users' needs for improved internal and external decision making (FRC, 2015).

Despite the importance of risk disclosure and the number of concerns regarding the provision of adequate disclosures, there is very little evidence on why such disclosures may be considered inadequate by information users and most importantly management's response to these concerns. In relation to this, the current study aims to explore users' perceptions and expectations for quality risk disclosure within the context of a UK listed bank. The study also examines the management of risk disclosures within the bank and the degree to which management's perceptions of what the user expects are incorporated within the bank's risk disclosure decisions. Section 2.7 discusses the literature on the management of corporate disclosure and how this study contributes to this stream of literature.

2.7 A review of the literature on the management of corporate disclosure

Although an extensive literature on risk reporting and corporate disclosure explores the determinants and incentives for the quality of the disclosures provided by companies as discussed in the earlier sections (e.g. Woods *et al.,* 2009; Elshandidy and Shrives, 2016; Linsley and Shrives, 2005; Beretta and Bozzolan, 2004) there is also evidence that the quality of corporate disclosure is driven by the decision choices and internal processes under which these disclosures are established (Amel-Zadeh *et al.,* 2019). The process within the firm for obtaining reliable and accurate information regarding risk events that may have disclosure implications is said to be vital and could have a harmful impact on the company itself (Bryce *et al.,* 2019). Therefore, it is worth noting that firms do have an incentive to disclose risk related information of a certain level of quality.

However, little is known on how firms manage these disclosures to understand the decision choices associated with such disclosure judgements. Although studies on the determinants of the quality and quantity of corporate disclosure are essential to regulators, users and management in improving the adequacy of corporate disclosure and awareness, it is also important to examine and understand the disclosure decision choices associated with these disclosures. According to

Mayorga (2013) managing corporate disclosures have become messier over the years and more difficult, as capital markets become more complex and the corresponding risk of not providing adequate disclosures to investors increase. In large companies, especially, where there are a large number of operations, the monitoring of potential disclosure events is a challenging task (Mayorga, 2013). Therefore, exploring the management of corporate disclosure provides insights on the locus of corporate disclosure responsibility, the activities involved and the range of issues considered when making disclosure decisions (Gibbins et al., 1990; Eccles and Mavrinac, 1995). Prior studies on the management of corporate disclosures have mainly adopted and developed the framework initiated by Gibbins *et al.* (1990) (Mayorga, 2013; Holland and Stoner,1996; Adams, 1997; Trabelsi et al., 2004). Gibbins *et al.* (1990) explored the management of voluntary corporate financial disclosures in Canada and developed a Disclosure Management Framework based on a grounded theory approach established from interview data. Gibbins *et al.* (1990) found that, the attributes of disclosure which are managed include the information content itself; the timing and interpretation of information; the structures for disclosure either from within the organisation or from external demands; external mediators; disclosure issues; opportunities and norms. The Disclosure Management Framework therefore comprised of five main components used to describe the process of how disclosures are managed and establish relations between components. The main components include the disclosure outputs as a dependent variable and; disclosure position, disclosure antecedents, disclosure issues, disclosure norms and opportunities as independent variables.

The findings from Gibbins et al. (1990) further suggest that,

> *'When management perceives an issue as having disclosure implications, any disclosure norms and opportunities are (or maybe) identified. Disclosure position, mediators, and structures may influence the identification of these issues and their perceptions of associated norms and opportunities. Disclosure outputs are then generated as a function of these perceived norms and opportunities (disclosure issues) as well as any existing structures. p 128).*

Using a similar grounded theory approach Holland and Stoner (1996) developed the Disclosure Management Framework to predict and explain how companies' and managers' disclosure experiences become the basis for the way disclosure is managed within the context of Price Sensitive Information (PSI). Holland and Stoner (1996) found that, corporate communication policies are mainly driven by financing, control and strategic needs. This is important because understanding a firm's corporate communication policies and how they are managed and controlled promotes the image of the company in its capital markets and ensures that the image and reality of the firm is well understood (Holland and Stoner, 1996).

Holland and Stoner (1996) find that;

> *"When management perceived an event as having PSI, disclosure implications and opportunities were identified. The identification of events and issues, and the classification of such issues as either PSI or non-PSI were found to be influenced by disclosure responsiveness (disclosure structures); external mediators; market and professional norms".*

Trabelsi et al. (2004) adopted the Disclosure Management Framework by examining the management of financial information disclosed in a firm's Traditional Financial Reporting (TFR) as compared with the website disclosures (Internet Financial Reporting (IFR)) focusing primarily on the firm's disclosure position with respect the TFR and IFR. Where the firm's ritualistic disclosure position is defined as a firm's propensity to adhere to prescribed norms for the measurement and the disclosure of financial information and the firm's opportunistic disclosure position is the propensity of the firm to seek firm specific advantage in the disclosure of financial information (Gibbins *et al.,* 1990). Their findings show that, a firm's ritualistic or opportunistic behaviour under IFR is not different from its behaviour under TFR. However, they find a wide variability in both forms of financial reporting in their use of financial reporting content, format and technology. Trabelsi *et al.* (2004) suggests that both the ritualistic and opportunistic disclosure position can coexist within the same firm but on average the firm could either be geared more towards either a ritualistic position or an opportunistic position. This is in line with findings from Gibbins *et al.* (1990) that; these two dimensions may exist within the same firm for different kinds of disclosure. In the context of voluntary disclosure in the public annual reports of New-Zealand based life insurance companies, Adams (1997, P.730) find that the process by which managers in New Zealand -based life insurance companies, irrespective of their organisational characteristics, routinely seek and generally follow, the advice of auditors (external mediators) on disclosure matters is considered to be a common ritualistic behaviour.

Prior studies on the management of disclosure have also adapted the Disclosure Management Framework in other disclosure contexts such as continuous disclosure and have identified specific disclosure structures and disclosure antecedents in managing corporate disclosures (Mayorga, 2013). Other studies on the management of corporate disclosures include Eccles and Mavrinac (1995), Meidell and Kaarbøe (2017), Giovannoni *et al,* (2016).

In line with the importance of firm communication policies in promoting the image of a firm in its capital market, Eccles and Mavrinac (1995) examined how US companies communicate to the capital markets by exploring the perceptions of corporate managers, financial analysts and portfolio managers on disclosure regulations using interview data. Eccles and Mavrinac (1995) found that, all companies may improve their disclosure process and communication by developing a strategy for corporate information disclosure, upgrading the role of investor relations staff, and voluntarily reporting non-financial information to increase analysts understanding, management credibility, investors' practice, and share value. Prior studies have also examined the roles and responsibilities involved in the management of corporate disclosures (Meidell and Kaarbøe, 2017; Giovannoni et al., 2016). Meidell and Kaarbøe (2017) examined how the Enterprise Risk Management (ERM) function influences the use of risk information in decision making processes overtime, drawing on Carlie (2004), to better understand how middle line managers within the risk function can influence decision making in the organisation by managing knowledge across boundaries. In their case study, Meidell and Kaarbøe (2017) find that when new risk information (risk technologies) are introduced the risk knowledge had to cross progressively more complex boundaries: an informative-processing boundary, which looks at the sufficiency of sharing and assessing knowledge between people in the ERM function; an interpretive boundary, where there is a process of translating the risk knowledge to establish a common meaning; and the political boundary, where the different interests among the various actors generate costs for the actors involved. In the process of managing the risk knowledge at each boundary, Meidell and Kaarbøe (2017) find that, the ERM function followed one of three phases of managing knowledge (i.e. transferring knowledge, translating knowledge and transforming knowledge) and each of these phases involved a particular boundary. Thus, when managing knowledge across the different boundaries within the organisation, the risk function could be involved in either the transferring of knowledge, the translation of knowledge and the transformation of the knowledge which in turn influences their use of risk information.

Giovannoni *et al.* (2016) highlights that, the roles and responsibilities involved in the management of corporate disclosures and the control of the main information flows within the reporting systems of an organisation influences the prevailing assumptions about risk management within the organisation. They find that the mobilisation of risk experts' technical and managerial capabilities to construct the monthly risk reports within the organisation allowed them to claim more space within strategic decision making, thus enabling the process of risk management change. These studies suggest that firms do have established controls and strategies for the management of risk reporting. Considering the influence risk disclosures have on market participants in making economic decisions that may influence the firm's performance, prior studies suggest that firms may have different incentives when deciding what to disclose and what not to disclose. Therefore, exploring the decision choices taken by management when making disclosure decisions provides an understanding on the different disclosure responsibilities, the structures in place and the range of issues considered when making disclosure decisions. Nevertheless, there is a gap on the degree to which corporate disclosures are managed to incorporate user expectations (Holland and Stoner, 1996; Mayorga 2013). This is important because evidence suggests that, managing the disclosure of material information reflects the nature of learning how to identify user expectations and how to meet the different audiences' disclosure expectations (Holland and Stoner, 1996; Mayorga 2013). This study follows the example of Mayorga (2013) to some extent by adapting the Disclosure Management Framework in combination with the Gaps Model which serves as a lens for exploring users' expectations for disclosure, managements understanding on these expectations and the degree to which management then translates their understandings of these into disclosure quality specifications.

2.8 Summary

The purpose of chapter 2 was to provide a detailed background on the development of the risk disclosure practice and provide an overview of the literature on risk disclosure quality. The chapter discusses the concept of risk, the development of the risk disclosure practice, problematising the risk disclosure literature, describing the elements of quality risk disclosures, user demands for risk information user and the importance of quality risk disclosures. This chapter then discusses the role of managerial discretion in the provision of risk disclosure and explores the literature on the management of corporate disclosures.

The recent financial crisis and banking scandals over the years have increased management's risk reporting responsibilities to include a growing need to provide confidence to stakeholders and reduce information asymmetry by providing accurate and informed risk disclosures. Standard setters and regulators have also played a key role in rules guiding the disclosure of risk related information in the UK banking industry. However, there still exists some form of managerial discretion within the process in providing disclosures around that non-financial information which are often very difficult to quantify and standardise as well as providing contexts and narratives around the financial disclosures they provide within their standardised disclosures.

Nonetheless, steps towards the improvement of risk disclosure quality and its usefulness stems from assessing users' expectations and the willingness of corporate managers to comply with best accounting practice. A few studies have investigated the degree to which the corporate disclosures are structures and established with management as well as the roles and responsibilities involved in the process (Mayorga, 2013, Meidell and Kaarbøe, 2017; Giovannoni et al., 2016).

Surprisingly and considering its complex nature, the management of risk related disclosures have been rarely explored. More specifically the degree to which they are managed to incorporate users' expectations. The aim of this study is to contribute to this stream of literature by providing insights into the different roles and responsibilities associated with the production of risk disclosures and the decision choices involved in the first instance as well as insights on users' expectations for risk disclosure quality from their understandings and management's response to these. It is believed that the findings from these will improve the understanding of user perceived risk disclosure quality and the actions and individual roles and responsibilities carried out in the risk disclosure practice.

Chapter 3: An overview of the UK banking system, risk disclosure requirements and the degree of managerial discretion

3.1 Introduction

This chapter provides an overview of the banking sector in terms of its role, characteristics, risk management and risk reporting. The chapter also focuses on the risk disclosure requirements in the UK which serve as a minimum stipulated regulatory requirement for banks to report. The main disclosure requirements are the disclosure requirements under the IFRS (International Financial Reporting Standards), the Basel Accord (pillar 3), and risk reporting guidelines in the UK corporate governance code. However, UK banks are also expected to meet their risk disclosure responsibilities as stipulated in the UK Companies Act 2006 and the International Standard of Auditing 700 (revised).

These requirements, however, do not provide a maximum stipulation and a number of companies can decide to either go above and beyond. For this reason, this section also discusses the degree of managerial discretion in the provision of risk disclosures. This is relevant to the current study because it emphasises the degree of management' discretion in the presence of the regulations when providing quality risk disclosures. The study argues that the provision of quality risk disclosures is not solely the responsibility of the regulators and therefore management plays a vital role in this process.

This chapter is structured as follows. Section 3.2 explains the role and characteristics of banks. Sequentially, section 3.3 explains the risk disclosure regulatory requirements in the UK banking sector as well as the degree of managerial discretion within the scope of these requirements. Finally, the chapter ends with a summary in Section 3.4.

3.2 The role and characteristics of UK banks

The word 'bank' initially came from the word 'banco' meaning a desk or bench covered by a green tablecloth, that was used several hundred years ago by Florentine bankers (Hull, 2015). The nature of a bank is highly risky mainly because of its fundamental role in taking deposits and making loans to individuals and corporations. For this reason, there is a continuous need for banks to operate in a safe and sound way.

Today most UK banks engage in either commercial banking, investment banking or both. Commercial banking involves, among other things, the deposit-taking and lending activities as discussed above and commercial banks in the UK are highly regulated to ensure that individuals and companies have confidence in the banking system (Hull, 2015, p28). Among the issues addressed by the regulation is the amount of capital banks are required to keep. In the UK, as stipulated in the prudential regulation rules, banks are required to hold sufficient capital and have adequate risk controls in place (Bank of England, 2017). The amount of capital required to be held by the regulator is determined by the bank's risk assessment of its Risk-Weighted Assets (RWA). Commercial banks can be classified as retail banking or wholesale banking. Retail banks are mainly involved in taking relatively small deposits from private individuals or small businesses and making relatively small loans to other individuals and businesses. Retail banking involves smaller deposits and loans. In contrast, wholesale banking involves the provision of banking services to medium and large corporate clients, fund managers, and other financial institutions.

Investment banking, on the other hand, is concerned with assisting companies in raising debt and equity financing, and providing advice on mergers and acquisitions, major corporate restructuring, and other corporate finance decisions (Hull, 2015, p31). Thus, investment banks facilitate the allocation of capital and the flow of funds between corporation and individuals. Some large UK banks are involved in security trading (e.g. by providing brokerage services). However, most UK banks are involved in commercial banking. As a result of the inbuilt risky nature in the role of the banking sector, risk management in banks has substantially changed over the last decade especially in the aftermath of the GFC and risk disclosures are especially key to understand their business (Abraham and Shrives, 2014). This is highly attributed to the increase in regulatory requirements around risk managements which has triggered a change in risk functions across the sector and higher standards for risk reporting (McKinsey and Company, 2015). According to Linsley (2011), this has resulted in calls for a more coherent and lucid risk reporting within the annual report of banks, so as to enable users to better understand the risks that banks are facing. Section 3.3 below provides some brief information on the bank chosen for this study and its principal risks as disclosed in its annual reports.

According to the Bank of England (2010; 2016) banks in the UK are often involved in three main services; payments and settlement services, intermediation between savers and borrowers and insurance against risk (Bank of England, 2010). This is particularly true for commercial banks.

In a first instance, commercial banks are involved in the provision of deposit and custody accounts, as well as services to support the efficient settlement of payments between households and companies. Secondly, banks are also intermediaries as household savings are typically pooled in deposit accounts, pension funds or mutual funds. They are then transformed into funding for households, companies or government. In the United Kingdom today, more than 300 banks and building societies are licensed to accept deposits (Bank of England, 2010; Bank of England, 2019b). According to the Bank of England (2019a), banks do not just lend money deposited by individual and corporations but also create deposits when making loans and therefore effectively increasing money supply. Thus, banks create more money in circulation and are limited to the amount created mainly by their assessment of the implications of any new lending on their solvency position and profitability. This is mainly particular for commercial banks.

Thirdly, the central bank highlights that banks play a vital role in allowing households and companies insure themselves against liquidity shocks mainly through deposit accounts by partaking in financial activities such as securitisation, derivatives and other insurance contracts that facilitate the dispersion of other financial risks within the economy. For example, foreign exchange derivatives allow companies to protect their international revenues from fluctuations in foreign exchange rates; and securitisation markets package and disperse banks' loan exposures (Bank of England, 2010).

3.3 A briefing of risk disclosure regulatory requirements in the UK banking sector and the degree of managerial discretion.

In a speech made by the general manager of the Bank for International Settlements in 2001, Andrew Crockett posits that, for market discipline to be fully effective in ensuring financial stability, four pre-requisites have to be met; market participants need to have sufficient information to reach informed judgements; market participants need to have the ability to process the information correctly; market participants need to have the right incentives; and finally market participants need to have the right mechanisms to exercise discipline (Bank for International Settlement, 2001). However, without complete accurate information in relation to the banks' capital requirements, which is a huge part of a banks risk assessment process in the UK, and therefore its risk disclosures, it becomes difficult for users to process the information correctly and for market discipline to be implemented.

In the aftermath of the GFC, risk reporting increasingly became an issue of particular interest to a wide range of user groups. Professional bodies and regulatory authorities enacted significant changes to risk disclosure and reporting regulation and also found a need for an improved level of corporate risk disclosure. This attempt was mainly to enrich the annual reports and meet risk information needs of investors and stakeholders in general (ICAEW, 2011; Leuz and Wysocki, 2016). Despite efforts made by professional bodies and regulatory authorities to improve the quality of risk disclosure, the CFA Institute (2016) highlights that there still exists a lack of adequate transparency attributable to inadequate market discipline which then leads to the mispricing of risk and the misallocation of capital. Regulatory authorities have therefore taken stringent measures to ensure market discipline. The regulatory requirements for risk disclosure in the UK mainly include; risk disclosure requirements under the Basel pillar 3; IAS 1, IFRS 7 and IFRS 9; the corporate governance guidelines. However, the Basel pillar 3 risk disclosure requirements for financial institutions are mainly to encourage market discipline so as to reduce information asymmetry and help to promote comparability among banks (Bank for International Settlement, 2015).

The existing regulatory framework under which UK bank risk disclosures are regulated is essential to consider for the purpose of this study because the regulator plays a key role in ensuring risk disclosure quality. It also provides insights into the degree to which the regulators are involved in the management of risk disclosure and the degree of managerial discretion available to managers in the process. The sections below describe and discuss the Basel Pillar 3 risk disclosure requirements and its application and development in the UK; the IFRS standards relating to risk disclosure; the bank's risk disclosure responsibilities as stipulated in the UK Companies Act 2006, the UK Corporate Governance Code and the International Standards of Auditing.

3.3.1 Basel, pillar 3 risk disclosure requirements

The Basel Committee on Banking Supervision (BCBS) is the primary global standard-setter for the prudential regulation of banks. The UK prudential regulator, however, requires UK financial institutions to maintain sufficient capital and have adequate risk controls in place (Bank of England, 2020). As part of its standards, the BCBS together with the Capital Requirements Directive (CRD IV) set out the regulatory guidelines for capital adequacy and the related risk disclosures, as well as the need for banks to hold sufficient capital to cover its Risk-Weighted Assets (RWA). The amount of capital required to be held is determined by the bank's risk assessment of its Risk-Weighted Assets (RWA). RWAs are used to determine the minimum amount of capital required by the bank based on the number of risks it is exposed to. This is aimed at reducing the risk of insolvency. A bank's risk of insolvency reflects its ability to control and mitigate its exposure to risks. The CRD IV is a European Union (EU) legislative package that contains prudential rules for banks, building societies and investment firms which is made up of the CRD itself and the Capital Requirement Regulation (CRR). These requirements are mainly outlined and detailed within the Basel Capital Accord established by the BCBS and the CRD IV since the 1980s. The Basel Accord was established to enhance financial stability by improving the quality of banking supervision worldwide and to serve as a forum for regular cooperation between its member countries on banking supervisory matters (Bank for International Settlements, 2016). Over the years these requirements have evolved to address changes in economic circumstances and are now made up of the Basel I, II and III Accord. The BCBS initiated the Basel 1 framework and the CRD IV introduced the supervisory framework which reflects the Basel II and the Basel III (Bank for International Settlement, 2016).

In the UK, the Prudential Regulatory Authority (PRA), under the authority of the Bank of England and the FCA require banks to comply with the guidelines and standards set out by the BCBS and the CRD IV which relates to their objective to ensure that UK banks hold sufficient capital to cover its RWA. The BCBS in line with its capital adequacy initiatives promotes market discipline as a way of imposing strong incentives on banks to conduct their business in a safe, sound and efficient manner, including an incentive to maintain a strong capital base as a cushion against future losses arising from risk exposures (Bank for International Settlements, 2001). In relation to this, the Basel Accord pillar 3 requirements aim to promote market discipline and increase transparency through regulatory disclosure requirements. These requirements enable market participants to access key information relating to the overall adequacy of a bank's regulatory capital and risk exposures (Bank for International Settlements, 2016). The section below provides a broad overview of the Basel accord and discusses the UK bank's risk disclosure responsibilities under this requirement. This provides an understanding of banking and their related regulatory risk reporting requirements.

As an initial initiative the Basel I Accord was established in 1988 to strengthen the stability of the international banking system and to remove a source of competitive inequality arising from differences in national capital requirements (Bank for International Settlements, 2015). Thus, the Basel I was proposed to achieve a minimum capital standard for banks across the world, with the intention that the regulatory authorities will impose in each country at least the same capital standards for banks in order to facilitate competitive equality (McKnight, 2007). The term capital is classified by the BCBS into the Tier 1 (Core Capital) which represents the highest quality of capital and includes stock issues and some types of preferred stock and Tier 2 (Supplementary Capital) largely comprises a range of lower quality financial instruments, such as subordinated term debt and certain hybrid instruments (King and Tarbert, 2011).

The Basel I requirements at the time focused mainly on bank's credit risk exposure and called for a minimum capital ratio of capital to RWA to be implemented by the end of 1992. The framework was then refined in 1997 to address risks other than credit risks. This led to the issuance of the Market Risk Amendment which adds a market risk element to the calculation of the Risk Weighting Assets Calculation. The Market Risk Amendment was designed to incorporate a capital requirement for the market risks associated with the banks' exposure to foreign exchange, traded debt securities, equities, commodities and options (McKnight, 2007).

Banks, for the first time, were then allowed to use internal models, such as the Value-at-Risk models, as a basis for measuring their market risk capital requirements other than the standardised method required by the Basel Accord (Bank for International Settlements, 2015).

Following on from Basel I the Basel committee issued a proposal for a new capital adequacy framework in 1999, known as the Basel II framework and is also known as the International Convergence of Capital Standards. The objective here was to promote the safety and soundness in the banking system; to better align regulatory capital to the banks' underlying risks and to encourage banks to further improve their risk management systems with particular focus on internationally active banks and banks of varying levels of complexity and sophistication (Bank for International Settlement, 2015). During the Basel II amendments, operational risk was the added as a third element for the calculation of RWA and three main pillars (i.e. Pillar 1, Pillar 2 and Pillar 3) were introduced (King and Tarbert, 2011). In 2010 and following on from the Basel II, the Basel III was initiated in response to the 2007-2008 Global Financial Crisis to strengthen the regulation, supervision and risk management of banks (Bank for International Settlements, 2017a). During this period the banking sector had entered into the financial crisis with too much leverage and inadequate liquidity buffers, accompanied by poor governance, poor risk management, and inappropriate incentive structures. The committee's empirical analyses highlighted a worrying degree of variability in the calculation of risk weighted assets by banks (Bank for International Settlement, 2017c).

At the peak of the GFC, a wide range of stakeholders, including academics, analysts and market participants, lost faith in banks reported risk-weighted capital ratios and the key objective of the revisions in the Basel III was to reduce the excessive variability of risk-weighted assets. The Basel III comprised a revision of the three pillars from Basel II.

Pillar 1 comprised the minimum capital requirements sought to develop and expand the standardised rules of the 1988 Basel I Accord for the three major types of risk (i.e. credit risk, market risk and operational risk). These requirements were revisited under the Basel III to include a further countercyclical buffer intended to be applied when credit growth is judged to result in an unacceptable build-up of systematic risk. There were also revisions to the standardised approach for calculating credit risk, market risk, credit valuation adjustment risk and operational risk.

The pillar 2 then comprises the PRA's review and regulatory response, as supervisors, to the bank's capital adequacy and internal assessment process as implemented in the pillar 1. The pillar 2 provides a framework for managing the other banking risks not included in the pillar 1 (e.g. systematic risk, strategic risk, reputational risk and legal risk) in order to ensure that sufficient capital is held against these risks as well. The aim of the Pillar 2 processes was to enhance the link between and bank's overall risk profile, its risk management and those discussed in the pillar 1. The pillar 2 therefore addresses firm-wide governance and risk management, including any risk of off-balance sheet exposures and securitization activities, sound compensation practices, valuation practices, stress testing, corporate governance, and supervisory colleges.

Pillar 2 is divided into 2 main parts. There is the Pillar 2A which requires banks to provide disclosures on risks to the bank that are not fully captured under the capital requirement (i.e. pillar 1). The second is the Pillar 2B which requires banks to provide disclosures on risks to which the bank may become exposed over the forward-looking planning horizon (Bank of England, 2018a). Within the pillar 2A is the Individual Capital Guidance (ICG) which is unique to each bank and is driven by the bank's Internal Capital Adequacy Assessment Process (ICAAP) and the PRA's review of that ICAAP. The ICAAP within the ICG requirements require individual banks to assess on an ongoing basis the amounts, types, and distribution of capital that it considers adequate to cover the level and nature of the risks to which it is or might be exposed. These include disclosures on non-financial risks, such as operational risk disclosures and those that are subjective, less verifiable which users highlight a desire for more of, especially in relation to how these are linked to the numbers firms provide in their disclosure report. It is worth noting that most of the pillar 2 disclosures are made to the regulators and the public, including equity analysts, and the public does not have access to this information. Documents relating to the pillar 2 are provided to the regulator and the regulator has the ultimate say in deciding which level of capital as per the bank's ICAAP is acceptable or not acceptable under pillar 2.

Finally, Basel pillar 3 comprises the risk disclosure requirements and the effective use of disclosure as a lever to strengthen market discipline and encourage sound banking practice. These Pillar 3 disclosures are provided to the public to facilitate market discipline. The pillar 3 requirements of the Basel II Accord were amended and enforced in 2016 and banks were required to publish their first pillar 3 report as a stand-alone document (Bank for International Settlement, 2015).

The pillar 3 requires banks to disclose information under the pillar 1 capital requirement on their risk profiles, including credit risk, counterparty risk, market risk, and operational risk; and the risk management strategies in place to mitigate these risks so as convey to information users a clear understanding of the banks risk tolerance levels and all its significant risks (Bank for International Settlement, 2015). The revised pillar 3 disclosure requirements under the Basel III comprised a consolidated and enhanced framework covering disclosure on all the reforms to the new Basel framework.

The Bank for International Settlements (2015), as well as the BCBS' framework to guide for an effective risk data aggregation and risk reporting (Bank for International Settlements, 2013; 2017a; 2018), sets out principles for adequate risk reporting. These principles in conjunction with the literature were useful in constructing the interview questions needed to undertake the study. These principles are explained below.

1. Disclosure should be clear and useful

It is expected that the risk management disclosures communicate information in a clear and concise manner that is understandable to the key stakeholders and communicated through an accessible medium. Important messages should be highlighted and easy to find. Complex issues should be explained in simple language with important terms defined. Related risk information should be presented together. Reports should include an appropriate balance between risk data, analysis and interpretation, and qualitative explanations.

2. Disclosures should be comprehensive

The risk disclosures provided should describe a bank's main activities and all significant risk should be supported by relevant underlying data and information. Significant changes in risk exposures between reporting periods should be described, together with the appropriate response by management. Disclosures should provide sufficient information in both qualitative and quantitative terms on a bank's processes and procedures for identifying, measuring, and managing those risks. The level of detail of such information should be proportionate to a bank's complexity. Approaches to disclosure should be sufficiently flexible to reflect how senior management and the board internally assess and manage risks and strategy, helping users to better understand a bank's risk tolerance/appetite.

3. Disclosures should be meaningful to users and accurate

Disclosures should highlight a bank's most significant current and emerging risks and how those risks are managed, including information that is likely to receive market attention. When meaningful, linkages must be provided to line items on the balance sheet or the income statement. Disclosures that do not add value to users' understanding or do not communicate useful information should be avoided. Furthermore, information which is no longer meaningful or relevant to users should be removed. The risk management reports provided are expected to accurately and precisely convey aggregated risk data and reflect risk in an exact manner. Reports should be reconciled and validated.

4. Disclosures should be consistent over time and comparable across banks

It is also expected that the risk management disclosures should be consistent over time to enable key stakeholders to identify trends in a bank's risk profile across all significant aspects of its business. Additions, deletions and other important changes in disclosures from previous reports, including those arising from a bank's specific, regulatory or market developments, should be highlighted and explained. The level of detail and the format of presentations of disclosures should also enable key stakeholders to perform meaningful comparisons of business activities, prudential metrics, risks and risk management between banks and across jurisdictions.

5. The frequency of the disclosures

The board and senior management (or other recipients as appropriate) are expected to set the frequency of risk management report production and distribution. Frequency requirements should reflect the needs of the recipients, the nature of the risk reported, and the speed at which the risk can change, as well as the importance of reports in contributing to sound risk management and effective and efficient decision-making across the bank. The frequency of reports should be increased during times of stress/crisis.

6. Distribution of reports

Risk management reports should be distributed to the relevant parties and while ensuring confidentiality is maintained. It is expected of banks to provide accurate, complete and timely risk information as a foundation for effective risk management. However, the risk information on itself does not guarantee that the board and top management will receive appropriate information to make effective decisions about risk and facilitate an effective risk management. Therefore, in order to manage risk effectively, it is important that the right information is presented to the appropriate decision-makers in a time that allows for an appropriate response (Bank for International Settlement, 2013).

3.3.1.1 The degree of managerial discretion within the scope of the Basel pillar 3 risk disclosure requirements

Dobler (2008) highlights that requiring a minimum level of information through regulations can serve as a risk management benchmark for managers and directors but cannot eliminate or overcome managerial discretion and incentives in risk reporting at each level of analysis. In view of this, this section discusses the degree to which management can apply some discretion when complying with the disclosure requirements and providing risk information. This is important because it provides a foundation for the researcher to assess the degree to which the responsibility for the disclosure of quality risk information lies with management. This constitutes a part of the current research objectives.

Even though the Pillar 3, Basel II requirements for instance provides risk disclosure requirements on what risk information banks should disclose and when they are to be disclosed, the banks have the discretion to choose how widely the disclosure requirements should apply (Bank for International Settlements, 2015). For example, the Bank for international Settlements (2015, p4) states that,

> *'If a bank considers that the information requested in the disclosure requirements would not be meaningful to users, for example because the exposures and Risk Weighted Assets are deemed immaterial, the bank may choose not to disclose part or all of the information requested'.*

The Basel committee also gives banks the option to choose between two broad methodologies when calculating their risk-based capital requirements for credit risk and market risk. The first method is the standardised approach and it assigns standardised risk weights to exposures. The second method is the internal ratings-based (IRB) approach, which allows banks to use their own internal rating systems for credit risk, subject to the explicit approval of the bank's supervisor (Bank for International Settlement, 2017c).

Banks are also expected to supplement the quantitative information provided, within their 'fixed' and 'flexible' templates, with a narrative commentary to explain at least any significant changes between reporting periods and any other issues that management considers to be of interest to market participants. This is important because, the disclosure of additional quantitative and qualitative information provides market participants with a broader picture of a bank's risk position and promote market discipline. However, the quantitative information banks choose to disclose must provide sufficient meaningful information to enable market participants to understand and analyse any figures provided. It must also be accompanied by a qualitative discussion. Any additional disclosure must comply with the guiding principles of the BCBS (Bank for International Settlements, 2015).

3.3.2 The International Financial Reporting Standards (IFRS)

In addition to the Basel requirements on risk and risk disclosure, banks are required to provide financial statements and disclosures in accordance with the IFRS. The co-existence of both requirements has been said to be overlapping and confusing. However, it is evident that since the adoption of the pillar 3 disclosure requirements, banks have increased their risk disclosures substantially more that when they had to comply with similar requirements under IFRS beforehand (Bischof *et al.,* 2016). This section provides an overview of the IFRS and IAS (International Accounting Standards) as well as associated risk disclosure requirements. There is the IAS 1 which focuses on the presentations of financial statements.

In line with the Basel Accord, IAS 1 requires firms to provide disclosures about their objectives, policies and processes for managing capital, including any related qualitative information. IAS 1 mainly sets out the overall requirements for the preparation of a firm's financial statements, including how they should be structured and the minimum requirements for their content. The aim is to ensure comparability both with the firm's financial statement of previous periods and with the financial statements of other entities. In relation to risk disclosures specifically, IAS 1 requires firms to disclose information about the key assumptions concerning their future as well as other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of the entity's assets and liabilities within the financial year (Deloitte, 2020). These are to be presented within the notes section of the financial statements in a way that faithfully represents the effects of transactions, other events and conditions (Deloitte, 2020).

IFRS 7 is the main standard associated with risk-related disclosures under the IFRS. The International Accounting Standards Board, which is the standard setting body for the IFRS, amended the IFRS 7 introduced in 2005 on financial instrument disclosures to ensure adequate disclosure on financial instruments. The IFRS 7 superseded the International Accounting Standard (IAS) 30 and replaced the IAS 32 on disclosure. Financial instruments refer to contracts that gives rise to either a financial asset or financial liability or equity instrument of another entity (ACCA, 2018). Thus, how a firm account for its investment in shares, bonds and receivables (financial assets); trade payables and long-term loans (financial liabilities); and equity share capital (equity instruments) in the event of a financial contract. The accounting standard relating to the identification, measurement and the recognition of financial instruments is the IFRS 9.

The objective of IFRS 7 is focused on financial instrument disclosures and is based on the notion that entities should provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance.

The disclosure requirements under the IFRS 7 is mainly divided into two main parts, the significance of financial instruments for a firm's financial position and performance and the nature and extent of risks arising from financial instruments and how these are managed (Deloitte, 2017). Thus, IFRS 7 requires firms to provide disclosures on the nature and extent of risks arising from the use of financial instruments. The required risks include credit risks, market risks and liquidity risks. For each type of risk arising from financial instruments, companies are required to disclose their exposures to these risks, how they arise as well as their objectives, policies and processes for managing the risks involved (Adjei-Mensah, 2017).

As part of the IFRS 7 requirements, companies are expected to present the disclosure in two categories (i.e. qualitative and quantitative). The qualitative disclosures required are presented on a firm's exposure to these risks; how these risks come about; as well as management's objectives, policies and processes for managing those risks. The quantitative disclosures required relate to the extent to which the entity is exposed to risk, such as the maximum amount of exposure, related valuations, and sensitivity analysis. IFRS 7 is an example of a mandatory disclosure; hence, all firms required to prepare their financial reports in accordance with the IFRS are required to comply with the IFRS 7 disclosure requirements. It is worth noting that, although the BCBS requirements on risk disclosure depend on the national bank regulators and supervisors, the IFRS requirements depends on the local stock exchange.

3.3.2.1 The degree of managerial discretion within the scope of the International Financial Reporting Standards (IFRS)

Under IFRS 7, companies may be involved in more than one financial instrument at a particular point in time, which may be managed under different investment strategies and differing risks. Much of the risk disclosures made, under IFRS 7, are based on the internal disclosures made within the company to key management personnel within the company, which may involve different investment decision choices and management approaches (PWC, 2010). For example, if a firm has two funds investing solely in stocks and with each fund having a different management approach, these would be expected to provide differing risk disclosures as both funds may involve different investment decisions and would face different risks (PWC, 2010). Thus, assuming that one fund's management does not utilise any analysis of the investment portfolio by sector and therefore focuses solely on each individual investment, and the other fund's management firstly decides how much of the fund's portfolio to allocate to different industry sectors and then deciding what stocks within those sectors to invest in. These two management approaches, chosen at the firm's discretion, would have different risks to them.

PWC (2010) highlights that in this instance, firms may disclose only the key risks so as to provide a common benchmark for financial statement users when comparing risk disclosures across different entities. Without providing specific information of the individual fund projects and the management of the fund's portfolio. Thus, some specific information may be left out of the public disclosures which may be of relevance to the users and more specific to the disclosing entity's operations. In relation to this, IFRS 7 provides that if an entity prepares a sensitivity analysis such as value-at-risk for management purposes that reflects interdependencies of more than one component of market risk (for instance interest rate risk and foreign currency risk combined), the entity has the discretion to choose that analysis instead of a separate sensitivity analysis for each type of market risk.

Another area with the IFRS 7 requirements where a bank may have the discretion to disclose information above the minimum requirement as stipulated in the requirements is that IFRS 7 allows for disclosures to be presented in be both qualitative and quantitative forms. IFRS 7 requires qualitative and quantitative disclosures on the entity's policies and procedures for accepting risk, in addition to those for measuring, monitoring, controlling risk and any changes in the policies and processes for managing and measuring risk (PWC, 2010). The qualitative information is to be provided on the firm's exposures to these risks; how these risks arise; and management objectives, policies and processes for managing those risks. The qualitative information is therefore highly subjective and management has the discretion to decide how these should be worded and presented in their disclosure reports. In relation to this, Bamber and McMeeking (2010) adds that firms have the discretion to increase the extent of their disclosures on financial instrument related risks in the notes of their financial statements as an incentive to increase legitimacy for instance.

3.3.3 The UK Companies Act 2006 and the degree of managerial discretion within the scope of the Companies Act.

Section 414A and 414C requires UK companies including banks to prepare a strategic report for each financial year of the company (UK Companies Act, 2006). The purpose of this report is aimed at ensuring that the members of the company, including its investors, are informed of significant undertakings of the business and how the company's directors have performed the duty in ensuring the success of the company. The information provided within the company's strategic report includes a review of the company's business and a description of the principal risks and uncertainties facing the company. These contents are prepared in the form of both financial and non-financial information. As part of its non-financial statement, the company is required to provide a description of the company's business relationships, products and services which are likely to cause adverse impacts in the risks identified as well as a description of how the company manages its principal risks. The purpose of the strategic report is to facilitate effective internal control process. *"The purpose of internal control is to help companies identify, manage and control risks appropriately in an environment where a company's objective, its internal organisation and wider markets in which it operates are continually evolving and where the risk it faces change over time"* (LexisNexis, 2020). This is aimed at eventually safeguarding the shareholder's investment and the company's assets (LexisNexis, 2020). In the preparation of these strategic reports, it is worth noting that, the UK Companies Act of 2006 does not specify the extent to which the companies should report on their risks and this is within the company's discretion.

3.3.4 The UK Corporate governance code and the degree of managerial discretion within the scope of the Code.

The Financial Reporting Council (FRC) sets the UK's corporate governance code which serves as a guide for the effective, entrepreneurial and prudential management of a company in ensuring that the long-term success of the company is attained (FRC, 2016, p1). It also places emphasis on a firm's relationship between companies, shareholders and stakeholders, which is very important for a firm's success.

The FRC defines corporate governance as “the system by which companies are directed and controlled” (FRC, 2016). UK companies are required to comply with the UK corporate governance code which sets standards on good practice in relation to board leadership and effectiveness, accountability and relations with shareholders. In particular, the code requires companies to provide a viability statement on their principal and emerging risks.

According to the 2018 code amendments, the FRC requires banks to present information on its principal risks and to give a clearer and broader view of solvency, liquidity risk, risk management systems and viability of the company (FRC, 2018a). The directors are required to describe the risks they face and explain how these risks are being managed (FRC, 2018a).

In the UK a comply and explain approach is used to allow some amount of flexibility in complying with the corporate governance regulation. This emphasises that the code is not a rigid set of rules as it consists of main principles, that are mandatory, supporting principles and provisions. The code, therefore, allows managers some form of discretion in the disclosure of corporate governance-related disclosures. The code recognises that an alternative to following a provision stipulated in the guidelines may be justified in particular circumstances if good governance can be achieved by other means.

In relation to this, the code sets out that directors should confirm that they have carried out a robust assessment of the principal risks the company faces, including those that would threaten its business model, future performance, solvency or liquidity and how they are being managed and mitigated (FRC, 2018a).

3.3.5 The International Standard on Auditing

In addition to the above risk disclosure requirements, company managers are expected to meet their responsibilities as outlined in The International Standard of Auditing. The International Standard on Auditing (ISA 700 – revised) explains the responsibilities of both management and the auditors in the preparation of financial statements in accordance with the applicable financial reporting framework (IFAC, 2015). The auditor’s responsibility is to determine key audit matters and, having formed an opinion on the financial statements, the auditor communicates those matters by describing them in the auditor’s report. The ISA 701 defines key audit matters as those matters that, in the auditor’s professional judgement, were of most significance in the audit of the financial statements of the current period (FRC, 2020). These key audit matters include areas of higher assessed risk of material misstatement or significant risks identified in accordance with ISA 315 (revised) (IFAC, 2017).

As part of the auditing process, management is then responsible for ensuring that their financial statements are free from material misstatements and that all significant risks are identified and controlled, including key audit matters (IFAC, 2015; FRC, 2020).

Depending on the key audit matters and risks identified by the auditor, management or those charged with governance may decide to include new or enhanced disclosures in the financial statement or elsewhere in the annual report in light of the fact that the matter will be communicated in the auditor's report. According to ISA 701, such new or enhanced disclosures, may be included to provide more robust information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under applicable financial reporting framework (FRC, 2020).

In addition, the IAS 1 requires management to make a specific assessment of the entity's ability to continue as a going concern (Deloitte, 2020). Management's assessment of the entity's ability to continue as a going concern involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions. These uncertain future events or risks are disclosed within the company's annual report and may involve some amount of managerial discretion. The following factors are relevant to that judgement: the degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. And the auditor evaluates management's assessment of the entity's ability to continue as a going concern according to ISA 570 (FRC, 2016).

3.4 Summary

This chapter discusses the role and characteristics of banks in the UK as the main context for this study. The chapter then provides an overview of the risk disclosure requirements in the UK and the degree of managerial discretion in the presence of the regulations when management decides what to disclose and what not to disclose. This is an area that indicates the extent to which the current research objectives can be explored. Despite the stringent risk disclosure requirement in the UK banking sector, bank managers are able to exhibit some amount of discretion when deciding what to disclose and what not to disclose. This, therefore, provides the scope for researchers to explore the processes enacted by management when making risk disclosure decisions and judgements.

Chapter 4: Theoretical Framework

4.1 Introduction

The theoretical framework chosen for this study is the Gaps Model of service quality initiated by Parasuraman *et al.* (1985) in combination with concepts from the Disclosure Management Framework, initiated by Gibbins *et al.* (1990). This chapter provides a background discussion on the theoretical frameworks and its application in the current study.

Chapter 2 discusses prior literature on the quality of risk disclosure and highlights the importance of addressing user needs as a key antecedent in the disclosure management process. Following on from this, the current study draws from the reconceptualised aspects of the Gaps model of service quality from Zeithaml *et al.* (2002; 2016) to explore a set of discrepancies between users' expectations on the quality of risk disclosure and their perception on the quality of the actual disclosures they get. The chapter also throws light on how the concept of service quality is conceptualised within the context of risk disclosure and its application in order to frame and interpret the research findings.

The background information on the concept of service quality and the Gaps Model is provided in section 4.2 followed by a discussion on the link between service quality and disclosure quality and how the gaps model would be applied in the disclosure context. Based on the Gaps model one important aspect has got to do with identifying and exploring discrepancies associated with translating management's perceptions of users' expectations into service quality of which management's decision choices is a big part of. However, the Gaps model provides a limited approach to examine management 'internal decision-making process when translating their perceptions of users' expectations into service quality or in ensuring that their perceptions of users' expectations are incorporated in the actual disclosures provided. For this reason, concepts from the Disclosure Management Framework, initiated by Gibbins *et al.* (1990) are applied to discuss management's decision choices. The background information on the Disclosure Management Framework is discussed in section 4.3 followed by a discussion of how it would be applied in the current study. This chapter, therefore, outlines the main features of the theories chosen for the purpose of this study, the reason for the researcher's choice of theory and its application in the context of risk disclosure.

The chapter is structured as follows, section 4.2 and 4.3 discusses the Gaps Model of service quality and the Disclosure Management Framework respectively. Section 4.4 then provides details on the application of both the Gaps Model and the Disclosure Management Framework within the context of risk disclosure. Finally, the chapter ends with a summary in section 4.5.

4.2 The gaps model of service quality

The importance of attaining quality in the provision of services drew the attention of Parasuraman *et al.* (1985) to develop the gaps model of service quality. This initiation was based on a thorough review of the literature on service quality, and an explorative investigation of the quality of service provided by four service business, using interviews. The service quality model serves as a tool for identifying and explaining the difference between the customer's expectation on a service performance and the customer's subjective assessment or perception of the actual service performance they get (Zeithaml *et al.,* 2016). This overarching discrepancy is the customer gap (Parasuraman *et al.,* 1985) or fulfilment gap (Zeithaml *et al.,* 2002) which stems from a number of discrepancies or gaps associated with the provision of a service and the factors that affect the size of these gaps (Zeithaml *et al.,* 2002;2016). The underlying concept is consumer expectations. The section below discusses this concept.

4.2.1 Definition and substance of customer expectations

The authors of the model also refer to service quality as the delivery of excellent service relative to customer expectations. Customers' expectations are believed to be pretrial beliefs about a service that serves as standards or reference points against which service performance can be judged (Olson and Dover, 1979; Zeithaml *et al.,* 1993). Thus, in relation to the model, quality service is mainly determined by customer expectations. Parasuraman *et al.* (1988) refer to expectations as the desires and wants of consumers, i.e. what they feel a service provider should offer rather than would offer. However, after a few criticisms from authors, the concept of expectations was further clarified as desired and adequate service expectations (Zeithaml *et al.,* 1993). According to Zeithaml *et al.* (1993), these two together as the expected service affect the perceived service.

There has been a debate in the literature on the different views of service expectations. However, in these debates, a consensus exists that expectations act as standards with which customers subsequent experiences are compared resulting in evaluations of quality (Zeithaml *et al.,* 1993). The expectation construct, therefore, has been viewed as playing a key role in customer evaluation of service quality (Gronroos 1982; Parasuraman *et al.,* 1985, 1988; Brown and Swartz 1989). Based on the literature, Zeithaml *et al.* (1993) identifies and explains the different views on expectations, desired service, adequate service and predicted service.

4.2.1.1 Predicted service expectations (Zeithaml et al., 1993)

Expectations here are viewed as predictions made by customers about what is likely to happen during an impending transaction or exchange. Oliver (1981, p33) refer to expectations as consumer-defined probabilities of the occurrence of positive and negative events if the consumer engages in some behaviour. Other authors referred to this view as the objective calculation of probability or likelihood of performance (Miller, 1977) and estimates of anticipated performance level determined by the customer (Swan and Trawick, 1980; and Prakash, 1984).

4.2.1.2 Desired service expectations (Zeithaml et al., 1993)

Existing literature has referred to expectations as the "wished for" level of performance (Miller, 1977) or *desired expectations* at which the customer wanted the product to perform (Swan and Trawick, 1980). Prakash (1984) referred to this form of expectations as *normative expectations*, i.e. how a brand should perform in order for the consumer to be completely satisfied.

According to Parasuraman *et al.* (1988), expectations are viewed as 'desires' and 'wants' of consumers, i.e. what they feel a service provider should offer rather than would offer. These studies argue that customer satisfaction or dissatisfaction is more likely to be determined by how well the service performed fulfils the customers' needs, wants or desires rather than how service performance compares to predictions made about what is likely to happen.

4.2.1.3 Adequate service expectations (Zeithaml et al., 1993)

Adequate service expectations refer to the lower level expectation the customer is willing to accept due to the fact that even though customers hope to realise their service desires, they recognise that this is not always possible (Zeithaml *et al.,* 1993). This level of expectation is similar to Miller's (1977) minimum tolerable expectation, the bottom level of performance acceptable to the customer, as well as Woodruff *et al.* (1983, 1987) experience-based norms.

Woodruff *et al.* (1983) augmented earlier conceptualizations by proposing that customers rely on standards that reflect what the focal brand should provide to meet needs and wants, but that these expectations are constrained by the performance customers perceive to be possible based on their experiences with actual brands. They called these expectations *experience-based norms* because they captured both ideal (desired) and realistic (predicted) aspects of expectations. Miller (1977) also proposed *minimum tolerable expectations*, defined as the lower level of performance acceptable to the customer, and deserved expectations, reflecting the customer's subjective evaluation of their own product investment.

In line with Davidow and Uttal (1989), Zeithaml *et al.* (1993) identify some key antecedents or customer-related factors that could influence the expectation formation process. These are often formed from uncontrollable factors from the customers' experiences and include their past experiences, personal needs (i.e. the states or conditions essential to the physical or psychological well-being of the customer), personal service philosophy (i.e. the customers underlying generic attitude about the meaning of service and the proper conduct of service providers, their self-perceived service control (i.e. the degree to which customers' themselves influence the level of service they receive) as well as their perceptions on the existence of service alternatives.

4.2.2 Definition and substance of 'Gaps'

The model positions the key concepts, strategies, and decisions in delivering quality service in a manner that begins with the customer and builds the organisation's tasks around what is needed to close the gap between customer expectations and perceptions of the actual service they get. This gap is referred to as the consumer gap (Parasuraman *et al.,* 1985), or the fulfilment gap (Zeithaml *et al.,* 2002). According to Zeithaml *et al.* (2016), this gap can be a major hurdle in attempting to deliver a service which consumers would perceive as being of high quality. This overarching gap stems from a few other gaps (i.e. the information gap, the design gap and the communication gap).

4.2.2.1 Listening Gap (not knowing what users expect) or information gap

To deliver superior service quality, managers must first understand how customers perceive and evaluate the service the company provides (Zeithaml *et al.,* 2002). The listening gap, according to Zeithaml *et al.* (2016), refers to the difference between the customers' expectations in terms of service provided by a firm and management's perception of what the customer expects, also known as the knowledge gap (Hoffman and Bateson, 2011). Thus, for management to incorporate customer expectations adequately, it is important for management to ensure that the gap between customer expectations of a service and management's perception of what customers expect is small. Exploring this gap is important because, when management, with the authority and responsibility for setting priorities, does not fully understand customer expectations, they may trigger a chain of bad decisions and suboptimal resource allocations which result in perceptions of poor service quality (Zeithaml *et al.,* 2016; p94).

4.2.2.2 Service design Gap (not selecting the right service designs)

Even though the accurate perceptions of user expectations are necessary, they are not enough to implement and deliver quality disclosures (Zeithaml *et al.,* 2016). This leads to examining the second service gap which is the service design gap. The service design gap is the difference between management's perception of what customers expect and the establishment of service designs by management to reflect these perceptions. Thus, its focus is on discrepancies identified when translating management's perceptions of customers' expectations into service quality specifications that the firm's employees can understand and execute. Service designs or standards refer to the decision choices made by management regarding how the service is presented. The initial design of a service should be informed by the company's knowledge about features desired by users from the information gap or listening gap (Zeithaml *et al.,* 2002, p369). Zeithaml *et al.* (2016) argue that one factor that may increase or decrease the size of this gap is the possibility that management wishes to meet user expectations but feels hampered by the existence of insufficient methods of measuring quality.

4.2.2.3 Communication gap (Not matching performances to promises)

The communication gap, according to Zeithaml *et al.* (2016), refers to the difference between actual quality of the services made by the company and the service the firm promises it will deliver through its external communications. Promises here refers to the standards against which customers assess service quality (Zeithaml *et al.,* 2016).

4.2.2.4 Consumer or Fulfilment gap

This gap represents the overall discrepancy between customers' expectations and experiences or their subjective assessment of the actual service delivered. This size of this gap depends on the size of the other four gaps. In effect, the size and direction of the consumer gap may influence the quality of the service delivery which reflects the customer's unfulfilled desires. This Gap has two distinct forms (Zeithaml *et al.* 2002) including:

1. One form of the fulfilment gap occurs because of inflated marketing promises made by firms that do not accurately reflect the reality of the service design and operation, e.g. marketing promises a "money-back guarantee", when in fact, the service lacks the back-end infrastructure to receive and process complaints from dissatisfied customers. This is a consequence of the communication gap.
2. The other form of the fulfilment gap is the frustration that users might experience even in the absence of external promises. Shortfall such as, in the case of web site service, customers inability to complete an e-purchase transaction also are manifestations of the fulfilment gap in that they reflect unfulfilled customer desires (Zeithaml *et al.,* 2002, p370). This kind of customer frustrations are not as a result of exaggerated external promises but rather are due to deficiencies in the design and operations of the service in terms of their

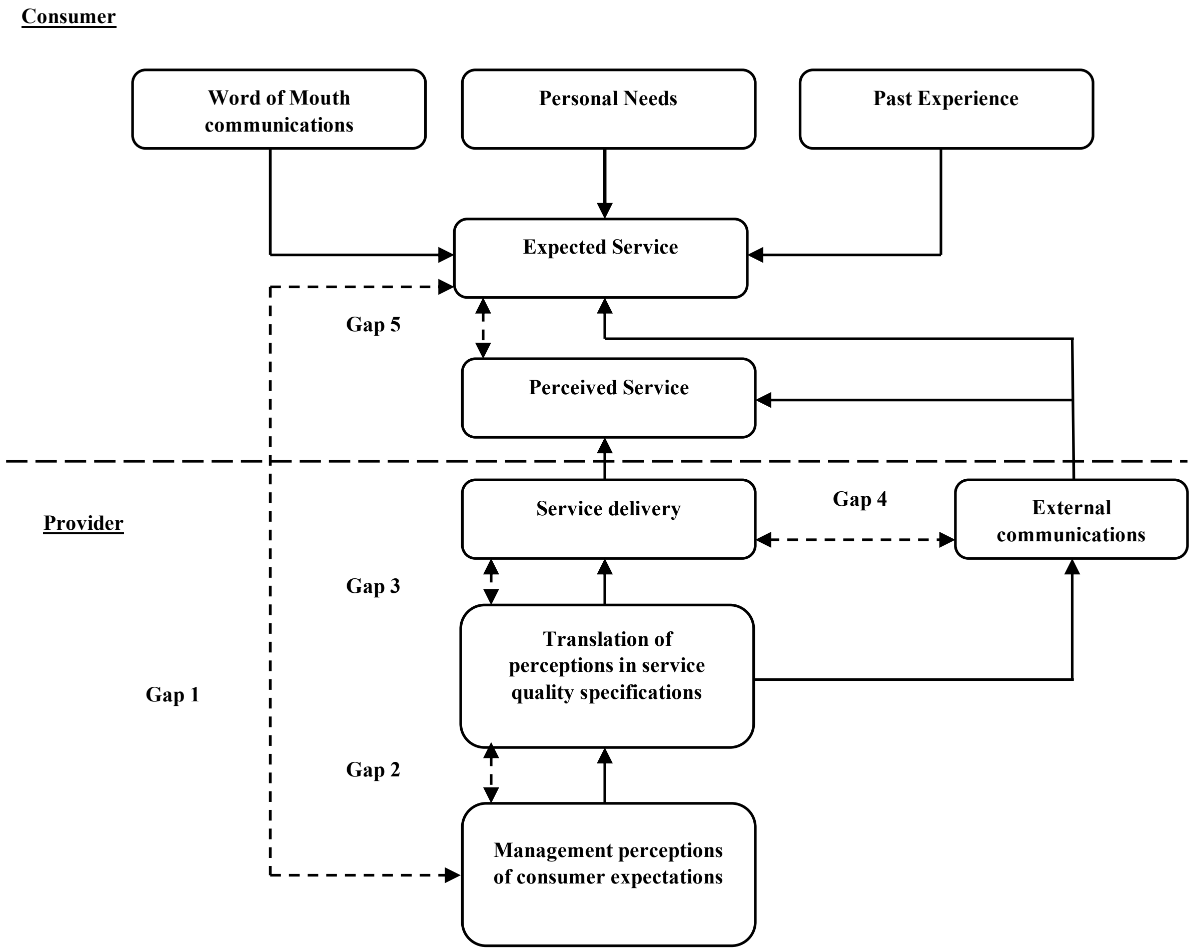
failure to fully incorporate customers' desires. This type of fulfilment gap stems from the cumulative effect of the information and design gaps, just as the fulfilment gap triggered by inflated promises is the consequence of the communication gap.

Figure 1 below shows the service quality gaps within the framework initiated by Parasuraman *et al.* (1985). The model comprises Gap 5 (i.e. consumer or fulfilment gap) as a function of Gap 1 (i.e. a listening gap of information), Gap 2 (i.e. design gap), Gap 3 (i.e. performance gap), and Gap 4 (i.e. Communication gap) (Parasuraman et al., 1985). The top half of figure 1 below is influenced by the customer. This represents the consumer or the fulfilment gap, which is the difference between the customers' expectations of the service and their perceptions of the actual service they get. The arrows show the relationships between the concepts. The figure also illustrates that the customers' expectations for a particular service is influenced by their individual personal needs, their past experiences and any word of mouth communications received from the provider. The customers expected service then influences their perceptions of the actual service they get.

The bottom half of figure 1 below is influenced by the provider of the service. It represents the provider's efforts to listen and obtain information on what the customers expect and the degree to which their perceptions of what the customer expects are translated and incorporated within the provider's process of designing and delivering the service.

Drawing on Zeithaml et al. (2002), this study focuses on the Fulfilment Gap as a function of the information gap, design gap, and the communication gap. The reasons underlying this and the application of the model within the context of risk disclosure is discussed in section 4.2.4. Figure 1 also shows that Parasuraman et al. (1985) identifies word of mouth, personal needs, and past experience as the antecedents for consumers expectations. Zeithaml et al. (1993) further developed the Gaps Model by specifying three different types of service expectations as discussed in section 4.2.1 (i.e. predicted service expectations, desired service expectations, and adequate service expectations).

Figure 1 Service Quality Model



4.2.3 Developments and criticisms of the Gaps Model of service quality

After the publication of the first studies by Parasuraman *et al.* (185; 1988;1991 and 1993) on service quality a growing number of scholars have debated on the theoretical underpinnings of the model, as well as its constructs.

4.2.3.1 Comparing expectations and perceptions as two distinct entities

The model is based on the comparison between customer expectations and perceptions and refers to them as two distinct entities, which it refers to as the customer gap (Parasuraman *et al.* (1985) or fulfilment gap (Zeithaml et al., 2002). The size of this gap then affects the other remaining gaps in the model. Parasuraman et al. (1988) outlined a scale named SERVQUAL to measure the possible gaps. The scale consists of 44 questions based on five components (i.e. reliability, responsiveness, assurance, empathy and tangibles). These characteristics serve as a criterion for evaluating customer expectations and perceptions for service quality.

The first 22-item group of survey questions customer expectations whereas the second 22 item group of survey questions deals with customer perceptions of the service consumption. Customers are then asked to express an evaluation for each item ranging from 1 (strongly disagree) to 7 (strongly agree). This scale has been extensively used in marketing research in different contexts and service categories to measure the service quality gaps in measuring service quality. However, some authors cast doubts on the analysis of expectations and perceptions as two different entities, thus preferring a unified approach perception as a result of the cognitive process of the customer. Cronin and Taylor (1992) developed the SERVPERF scale based on the belief that the comparison between the perceptions and expectations occurs automatically in the customer's mind (Carman, 1990; Cronin and Taylor, 1992;1994; Brown *et al.,* 1993; Teas, 1993; Grönroos, 2007). Brown *et al.* (1993) argue that a double measurement is worthless as in the majority of cases expectations exceed actual perceptions. With regards to the predominance of perceptions, Parasuraman *et al.* (2004) reaffirmed their position and confirmed that the comparison between expectations and perceptions of performance allows to make a long-term assessment and to gain more information. Thus, analysing expectations provides an opportunity to measure these expectations against future performances. Zeithaml *et al.* (2002) further suggest an avenue for research on the Gaps Model and in measuring service quality which is the use of in-depth interviews to yield evidence of these gaps as well as ways in which successful companies have closed them. However, a study on this is rare.

4.2.3.2 Competition, expectation and perceptions

Existing literature highlights that, market relations are fundamental for the development of expectations and perception, as well as for the identification of service quality standards and the firm's actual performance (Erickson and Johansson, 1985; Martin, 1986; Zeithaml, 1988; Brucks et al., 2000). According to critics, (Mauri, 2013), competition was not contemplated in the original Gaps Model of service quality. However, it was later introduced by the authors in the 1993 revised version, with a limited role of "perceived service alternatives" (Zeithaml *et al.,* 1993). According to Zeithaml *et al.,* (1993) such alternatives (i.e. perceived service alternatives) are deemed to be able to exert influence on the "adequate service" component of the "expected service", but not on the "desired service". In that, the customer's knowledge of perceived service alternatives has the possibility to influence their adequate expectations of the service. Mauri et al. (2012) on the other hand find that competitors' offers do have a significant influence on the "desired service" and their communication does play a major influence on customers' perceptions (Mauri et al., 2012).

4.2.3.3 Minor role of communication

In the Gaps Model and in relation to external and internal communication, it is assumed that the firm is to be in charge of communication flows (firm-controlled information). However, this does not include other possible sources of information which the customer may have access to. These additional sources, which are not considered by the model, can make their contribution to service quality expectation development and affect directly quality perceptions and the level of customer satisfaction accordingly (Mauri et al., 2012).

4.2.4 The motivation behind the use of the Gaps Model of service quality

There are a number of social theories that could have been drawn upon to examine the phenomena and it is therefore important to justify the particular theory chosen for the purpose of this study. At the start of developing this thesis, a range of theories were considered in relation to the research objective. A theory that would enable the researcher to examine users' needs for risk related disclosure quality and explore management's decision-making process in providing risk disclosures and incorporating these user needs in the process. A few of these theories summarised below all have the potential of achieving aspects of the research, however, the Gaps Model of service quality is especially suited to dealing with questions that examine how customers assess the quality and consider the factors that contribute to determine quality in its various connotations, quality expected by customers, quality offered by firms and the potential causes for a gap between what users expect and the quality offered by firms. (Mauri, 2013). Thus, the model conceptualises key concepts, strategies and decisions which are essential for the providing quality service according to a sequence which starts from the customer, identifies necessary actions for the firm to plan and offer a service and go back to the customer in the hub of the model: the comparison between expectations and perceptions.

Actor-Network Theory (ANT) is another theory that could have been used to achieve aspects of the current research objective. However, there are a number of reasons for preferring the Gaps Model of Service quality to that of the Actor-Network theory. First, ANT assumes an equivalence between human and non-human actors (e.g. technology, discourse). This conflicts with the desire for this study to focus on the human actors themselves and their interpretations of a phenomena in much detail. According to Greenhalgh and Stones (2010), ANT takes the attention away from the actors themselves and focuses on a researcher interpretation at the expense of any account which the participants might have given. In choosing the Gaps Model of service quality, the researcher focuses more on participants' views on the phenomena, therefore giving participants a voice from the perspective of both the user and the preparer.

The strong structuration theory is another theory that could have contributed to achieving aspects of the current research objective. Even though the strong structuration theory focuses attention on both internal actors and external actors, it concentrates on the relationship between the agent or actor and structure where actions of agents rely on structure and structure relies on the action undertaken by the agent. This concept is termed as the "duality of structure" (Giddens, 1984). Structure defined by Giddens (1984) as a process, not a product or steady-state (e.g. an accounting process).

Archer (1995) argued that in the duality of structure and agency, both concepts collapse together to the extent that they are inseparable and there is little scope to explore the boundaries of such structures. Even though this theory is useful for explaining the features of an agent's role/ agents in relation to a structure, the boundary issues allow for very little scope to explore the relationship between internal structures established and the outcomes of these structures (Stones, 2005, p56). The Gaps Model provides a scope for exploring users' expectations on risk disclosure quality provided by management as well as management's perceptions, understanding and response to these perceptions. Thus, the model provides a guideline for exploring the outcomes of risk disclosure as perceived by users.

Other theories like institutional theory (Aldelrehim *et al.,* 2017), stakeholder theory, and the legitimacy theory (Rimmel and Jonall, 2013) were considered by the researcher. However, considering the objectives of the research these theories provide limited scope in exploring users' expectations on the quality of risk disclosure and management's response to these expectations. Therefore, this study argues that the Gaps Model of service quality would be a better theory in providing a lens for its research objectives and taking a different perspective in relation to the concept of user - expectations (desired and adequate expectations), making a useful contribution.

4.2.5 Adaptation and application of the gaps model of service quality in this study

This section discusses how the researcher adapts and extends the service quality Gap Model in the context of risk disclosure and aims to explain the basis of applying this model. The study adapts the Gaps Model in order to explain its concepts and strategies within the context of risk disclosure and reporting. The key concepts of the model explained above subsections of 3.2 are reconceptualised within the context of risk disclosure. For this reason and for the purpose of this study the concept of a service will be reconceptualised as disclosure and customers as users of disclosure information throughout the rest of the study. These would be used interchangeably.

Zeithaml *et al.* (2016) identifies different kinds of services, including services directed at people's bodies, services directed at people's tangible possessions, services directed at people's minds and services directed at people's intangible possessions. The one form of service that relates to This study is the service directed at peoples' minds. The services directed at peoples' minds include services such as education, the arts, professional advice, news and information. Such services may include consulting, training, maintenance, and other services that may result in a final tangible report (e.g. a disclosure report) (Zeithaml *et al.,* 2016). Drawing on Zeithaml *et al.* (2016) the disclosure of risk information to different user groups through different mediums such as a statutory report can be classified as a kind of service.

According to a recent definition given by one of the authors of the model (Zeithaml *et al.,* 2016; p6),

> *"services refer to all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are essentially intangible concerns of its purchaser".*

As risk disclosures are mainly geared towards communicating the firm's performance and risk position to its stakeholders in an attempt to support informed economic decisions, the information provided can be considered as a service rendered by the management of the firm to its stakeholders. In view of this, the current study draws on concepts from the Gaps Model to explain a set of discrepancies between user expectations on risk disclosure and their perceptions and experiences of the disclosures they actually get. As discussed in 3.2.2, this overarching discrepancy or gap reflects the customers unfulfilled desires and has two distinct forms. The form of the fulfilment gap applied here is the one that excludes the communication gap. Once again, the communication gap refers to the difference between actual quality of the services made by the company and the service the firm promises it will deliver through its external communications. However, since with risk disclosures companies do not make external promises with regards to their risk disclosures, the second form of the fulfilment gap would be applied which occurs as a result of some frustrations users might experience even in the absence of external promises. According to Zeithaml *et al.* (2002), this form is often due to deficiencies in the design and operations of the service in terms of their failure to fully incorporate customers' desires and expectations. This type of fulfilment gap therefore stems from the cumulative effect of the information and design gaps (Zeithaml *et al.,* 2002). Drawing on Zeithaml *et al*. (2002), the study, therefore, focuses on adapting and developing the concepts that underlie this form of the fulfilment gap within the context of risk disclosure. In order to achieve this objective, the study identifies and discusses the desired and adequate expectations of user participants and the degree to which these are incorporated when management provides risk disclosures. The intangible concerns for users of risk disclosure information on its presentation, transparency and the quality of the information provided by management is an area of interest and worth exploring as it provides insights on the understanding of user-perceived risk disclosure quality.

The study also attempts to identify some key antecedents or customer-related factors that could influence the expectation formation process (i.e. adequate or desired expectations) in the analysis (Zeithaml *et al.,* 1993). These are often formed from uncontrollable factors from the customers' experiences and include their past experiences, personal needs (i.e. the states or conditions essential to the physical or psychological well-being of the customer), personal service philosophy (i.e. the customers underlying generic attitude about the meaning of service and the proper conduct of service providers, their self-perceived service control (i.e. the degree to which customers' themselves influence the level of service they receive) as well as their perceptions on the existence of service alternatives.

4.2.5.1 Listening or information gap

The listening gap, according to Zeithaml *et al.* (2016), refers to the difference between the customers' expectations in terms of service provided by a firm and management's perception or understanding of what the customer expects, also known as the knowledge gap (Hoffman and Bateson, 2011). The perception or understanding of management here, refers to how they interpret or view the users' expectations. For the purpose of this study, the listening gap has been redefined as the difference between the users' expectations of risk disclosures provided by the firm and management's perception of what the user expects. In order for management to incorporate user-disclosure expectations adequately in the management process, it is important for management to ensure that the gap between user expectation of risk disclosures and management perception of what users expect is small. Exploring this gap is relevant because what managers, responsible for guiding risk reporting, believe to be an ideal risk disclosure for its target market might be incomplete and inaccurate because of insufficient or incorrect information and understanding about the risk disclosure features desired by users (Zeithaml *et al.,* 2002, p368). In relation to the Gaps Model what users feel management should disclosure, in the context of disclosure, is referred to as desired expectations. However, even though these expectations are key to users, users may recognise that their expectations may not always be achieved or be possible. Therefore, a minimum tolerable expectation is identified for this in the literature as adequate expectation (Zeithaml *et al.,* 1993). In relation to this, the researcher intends to analyse the findings by identifying both the desired expectations and adequate expectations for quality risk disclosure. Users' expectations would be categorised as either desired or adequate expectations based on their responses in relation to their level of tolerance on a particular quality of risk disclosure.

4.2.5.2 Design gap

The service design gap is the difference between management's perception of what customers expect and the establishment of service designs by management to reflect these perceptions. The service design gap has been redefined as the difference between management's perception of what users expect and the establishment of disclosure designs by management to reflect these perceptions. Disclosure designs, therefore, refer to the decision choices made by management regarding how the disclosures are presented. This gap presents the researcher with the opportunity to identify and explore discrepancies associated with translating management's perceptions of users' expectations into disclosure quality specifications, either from within or outside the firm, that the bank's employees can understand and execute.

It is worth noting that the extant literature on the Gaps Model have used the SERVQUAL 7-point Likert scale as a measure of the possible gaps. In applying the scale, customers are often asked to express an evaluation for each item on the scale ranging from 1 (strongly disagree) to 7 (strongly agree). Even though applying the SERVQUAL in measuring service quality is useful in identifying the degree of some service quality determinants in a particular service category, it is however limited to the determinants predetermined by the researcher. The SERVQUAL as a measure for service quality also allows little scope for exploring customer identified service quality determinants as well as the extent and potential causes of the gaps. In response to this, and a call from Zeithaml *et al.* (2002) This study uses in-depth interviews to provide evidence of these service quality gaps as well as the ways in which management or service providers have responded to them.

4.3 The Disclosure Management Framework initiated by Gibbins et al. (1990)

Section 3.2 above provides a detailed overview of the Gaps Model of service quality and how the researcher reconceptualises risk disclosure as a service within the constructs of the Gaps Model. Even though the Design Gap construct as discussed earlier can be useful in identifying users' expectations for quality disclosures and management's response to users' expectations, the model does not provide a clear approach to examine management's decision choices. The model does not provide a clear approach for examining the internal decision -making process undertaken by management in translating their perceptions of users' expectations or the degree to which their perceptions of users' expectations are incorporated in the actual disclosures provided. For this reason, concepts from the Disclosure Management Framework would be adapted to provide an explanation on how internal decision -making process is undertaken by management in translating their perceptions of users' expectations into disclosure quality specifications and the degree to which user expectations are incorporated in the process. This section, therefore, introduces the Disclosure Management Framework initiated by Gibbins *et al.* (1990) and discusses it in more detail.

Gibbins *et al.* (1990) explored the management of corporate financial disclosures in Canada and developed a disclosure management framework using a grounded theory qualitative approach. The Disclosure Management Framework offers an understanding of financial disclosure as a managed phenomenon, using different perspectives (i.e. institutional theory and resource-based theory) to propose and develop a theory about managing financial disclosure, and the motivations, events, processes, structures and people behind the financial disclosures made by organizations (Gibbins *et al.*,1992). According to Gibbins *et al.* (1990) the process of corporate disclosure is essential to the relevance of the disclosure itself and defines the disclosure process as all activities and procedures, the individuals or groups involved, the alternatives considered, the timing and sequence of events, as well as the thread and connections among people and events. Thus, the disclosure process involves producing disclosure outputs in response to external and internal stimuli (Gibbins *et al.,* 1990).

In order to examine the management of corporate financial disclosures, Gibbins *et al*. (1990) identified key components to describe the process of how disclosures are managed and to identify relations between these components. These components formed the basis of the framework they developed and are shown in figure 2 below. The main components of the disclosure framework developed by Gibbins *et al.* (1990) include the disclosure outputs as a dependent variable and disclosure position, disclosure antecedents, disclosure issues, disclosure norms and opportunities as independent variables.

Figure 2 Disclosure Management Framework

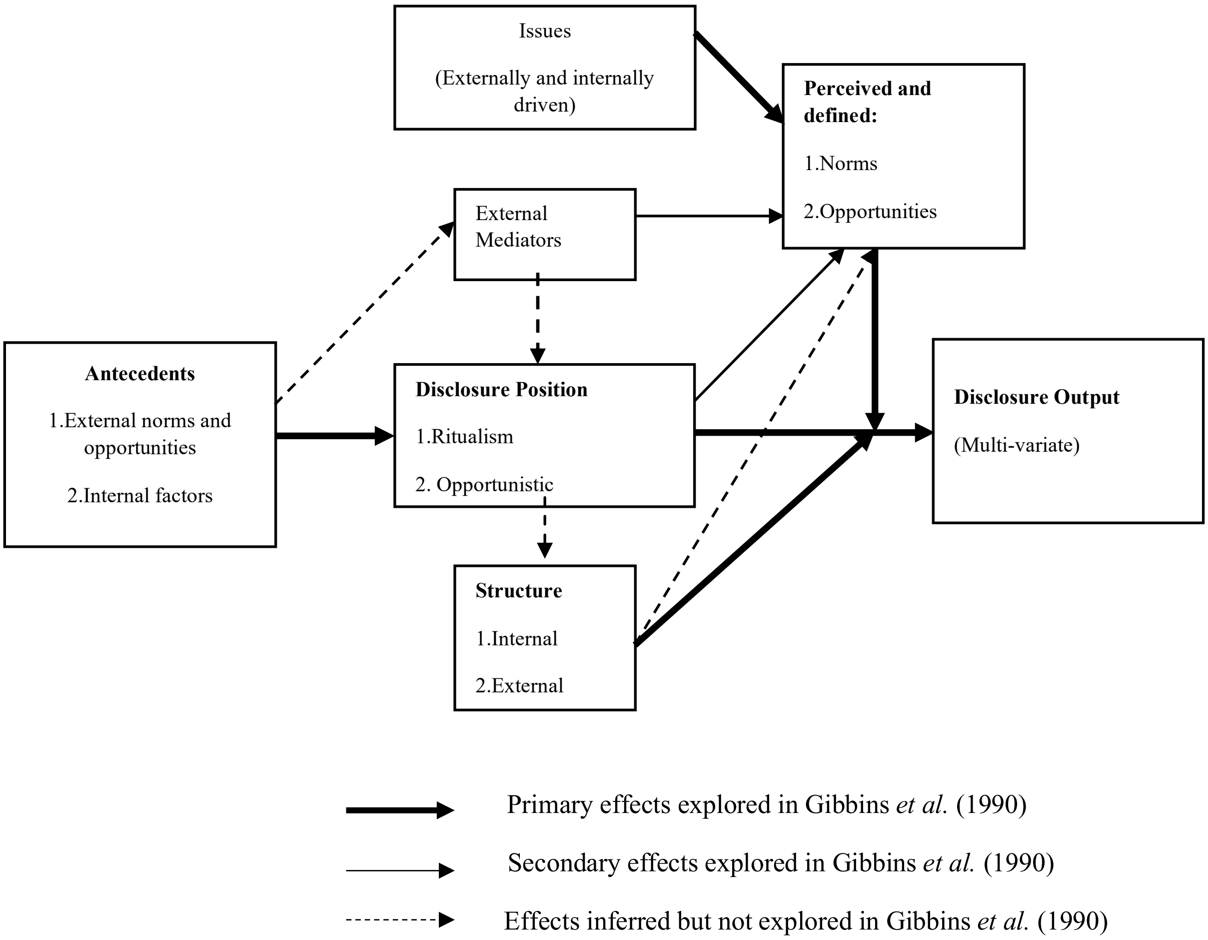


Figure 2 highlights the components of the disclosure management framework and the relations between the different components. The findings from Gibbins *et al.,* (1990), as shown in figure 2 above, suggests that;

> *'When management perceives an issue as having disclosure implications, any disclosure norms and opportunities are (or may be) identified. Disclosure position, mediators, and structures may influence the identification of these issues and their perceptions of associated norms and opportunities. Disclosure outputs are then generated as a function of these perceived norms and opportunities (disclosure issues) as well as any existing structures. p 128).*

4.3.1 Disclosure position

The disclosure position is defined as a relatively stable preference for the way disclosure is managed which represents shared meanings and understandings of the role of disclosure among managers in a particular firm. This position determines an average response to disclosure issues under normal circumstances for a given firm (Gibbins *et al.,* 1990). Gibbins *et al.* (1990) identified two dimensions to a firm's disclosure position. These dimensions include ritualism and opportunism. Gibbins *et al.* (1990) highlights that these may exist within the same firm for different kinds of disclosure. Gibbins *et al.* (1990) also highlight that the emergence of the firm's disclosure position along the two dimensions reflects that various internal and external factors which they term as disclosure antecedents. Studies that have adopted the Disclosure Management Framework add that the way disclosure is managed is based on the companies and manager's disclosure experiences termed as the disclosure position (Holland and Stoner, 1996). A firm's disclosure position is influenced by their experiences in relation to a particular disclosure context and helps to shape its existing disclosure structures (Gibbins *et al.,* 1990) or response structures (Holland and Stoner, 1996). According to Trabelsi *et al.* (2004), these two dimensions can coexist in the same firm but on average, the firm could either be geared more towards either a ritualistic position or an opportunistic position. The two dimensions to a firm's disclosure position are explained below;

4.3.1.1 Ritualism (Ritualistic disclosure position).

The ritualistic dimension to a firm's disclosure position has been defined as a firms' propensity to adhere to prescribed norms for the measurement and the disclosure of financial information (Gibbins *et al.,* 1990). Norms are defined by Gibbins *et al.* (1990) as the formal and informal rules, procedures, and standards believed by the firms' managers to apply to a particular disclosure issue. A firm that behaves in a ritualistic manner is said to exhibit a largely passive, adherence to perceived disclosure norms and does so using routinized, often repetitive, bureaucratized procedures (Gibbins *et al.,* 1990). In this instance, even though the disclosure will employ processes that are well known and standardised, these processes arise from external disclosure regulations such as mandated accounting standards or securities regulations. Gibbins *et al.* (1990) highlight that the processes established by firms that exhibit a ritualistic behaviour are firms that have long-lasting internal patterns such as a corporate history of routines and bureaucratic behaviours and not necessarily the external patterns such as compliance with regulations, standards or industry norms.

4.3.1.2 Opportunism (Opportunistic disclosure position)

In contrast to ritualism, the opportunistic dimension of a firm's disclosure position is the propensity to seek firm-specific advantage in the disclosure of financial information (Gibbins *et al.,* 1990). Thus, opportunism if generally compatible with both the internal conditions of the firm such as incentives for individual managers. Opportunism is also a managerial predisposition to behave in a particular way, but through active stances in which disclosures are seen as opportunities to reap specific benefits by managing the disclosure process (Gibbins *et al.,* 1990). This behavioural pattern involves the active participation or commitment of management in the disclosure process.

4.3.2 Disclosure Antecedents

Gibbins *et al.* (1990) highlighted that the emergence of the firm's disclosure position along the two dimensions reflects various internal and external factors which they term as disclosure antecedents. Thus, a firm's disclosure position is understandable in terms of a set of internal and external antecedent conditions. Mayorga (2013) adds that disclosure antecedents differ across disclosure settings and they, therefore, change in relation to the present structures, norms and readiness to disclose information. Table 4-1 below highlights the disclosure antecedents identified by prior studies who have adopted the disclosure management framework.

Table 4-1 Disclosure Antecedents

	Gibbins *et al.* (1990)	Holland and Stoner (1996)	Mayorga (2013)	Adams (1996)	Trabelsi *et al.* (2004)	Johansen and Plenborg (2018)
Disclosure antecedents	**Internal Antecedents** (Corporate history, corporate strategy, Internal policies) **External Antecedents** (Legislation, the existence of inter-organisational networks, industry norms)	**Internal Antecedents** (Corporate strategy, financial policy, corporate defence against take over) **External Antecedents** (Insider dealing law, stock exchange guidance)	**Internal Antecedents** (Corporate history (traditions, company's and manager's disclosure experience), corporate politics (managements' preferences) **External Antecedents** **Institutional factors** (ownership structure, perceived regulatory and litigation risks, analyst expectation, the involvement of third parties, exposure to external uncertainties and complexities, media, the sensitivity of issue to the local community). **Market factors** (effect on the company's competitive position)	**Internal Antecedents** (Corporate culture and traditions) **External / Environmental Antecedents** (Industry norms, Market competition)	**Internal Antecedents** (Corporate history, corporate expertise, corporate experience, corporate strategy, corporate attitude, compromise and consensus) **External Antecedents. Institutional factors** (Legislation, Regulation, Standards, inter-organisational networks, Industry norms) **Market factors** (Equity market access, Product market, Competition)	**Internal Antecedents** (Corporate politics, corporate experience) **External Antecedents** (Regulation, auditors, User information needs, industry norms)

Gibbins *et al.,* (1990) identified, legislation, the existence of inter-organisational networks and industry norms as external antecedents, and corporate history, corporate strategy and internal policies as internal antecedents in relation to corporate financial disclosures. These external antecedents are then classified into both institutional and market factors (e.g. Mayorga, 2013 and Trabelsi *et al.,* 2004). The institutional factors include, legislation, standards, regulation, inter-organisational networks, and industry norms. The market factors include equity market access, product market and competition. Holland and Stoner (1996) developed the framework established by Gibbins *et al.,* (1990) and identified insider dealing law, and stock exchange guidance as external antecedents, and corporate strategy, financial policy and corporate defence against take over as internal antecedents in relation to Price Sensitive Information. Holland and Stoner (1996) did not find evidence on the effect of corporate history, internal policies, and industry norms but did confirm the importance of corporate strategy, legislation and the existence of inter-organisational networks as identified by Gibbins *et al.,* (1990). Mayorga (2013) and Johansen and Plenborg (2018) on the other hand, found evidence for corporate history and corporate politics. Mayorga (2013) then identified, traditions, companies disclosure experience, management disclosure experience and management's and board's preferences as key internal antecedents, and ownership structure, perceived regulatory and litigation risks, analyst expectations, the involvement of third parties, exposure to environmental uncertainties and complexities, media sensitivity of issue to the local community and the effect on company's competitive position as external antecedents in relation to continuous disclosures.

4.3.3 Disclosure issues

Disclosure issues are issues perceived by the firm's managers during their decision-making process. Gibbins *et al.* (1990) establish that disclosure processes are activated by specific disclosure issues according to the disclosure norms and disclosure opportunities perceived by managers. Thus, the disclosure issues reflect the norms and opportunities or disclosure antecedents (Gibbins *et al.,* 1990) perceived by managers. Disclosure norms are defined partially by externally driven disclosure issues-imposed disclosure requirements, regulations and partially by factors internal to the firm. The disclosure opportunities are perceptual, not objective, they are the benefits and costs believed by the firm's managers to be associated with specific disclosure issues.

These disclosure issues could either be internally or externally driven. Disclosure issues highlighted in prior studies include assessing materiality, contingent claims, contract settlements, line of business reporting, loss of provisions, inventory valuation, managing expectations and determining timing and content.

4.3.3.1 Relation between disclosure position and disclosure issues

An interaction between opportunities and the firm's disclosure position is likely, given that opportunities are more likely to be perceived given an opportunistic disclosure position (Gibbins *et al.,* 1990). In turn, an opportunistic disclosure position is more likely to be adopted where many issues with opportunities are present. The relation between disclosure position and disclosure issue applies also to ritualistic disclosure. Ritualism is activated by the perceived presence of existing norms. The repeated exposure to issues with strong norms may increase the propensity to ritualistic behaviour. Therefore, depending on the disclosure issue in question it could either increase a firm's propensity to a ritualistic behaviour or its propensity to an opportunistic behaviour.

4.3.4 Disclosure structures

Gibbins *et al.* (1990) identified two main disclosure structures. These include the internal disclosure structure and the external disclosure structure. Internal structures are the extent to which the responsibility for managing disclosures is assigned to particular positions within a company and is guided by clearly understood policies and procedures (Gibbins *et al.,* 1990). A similar study that developed the framework established by Gibbins *et al.* (1990) defined internal structures as the formulation of general communication policies and the setting up of responsive systems or structures of tailored decision processes, investor relations functions and internal controls (e.g. setting up a new network of analysts, financial institutions and press controls) (Holland and Stoner, 1996). The paper by Holland and Stoner (1996), will be discussed later in this section. External structures refer to the extent to which external demands for information are channelled through organisations that claim to represent third party interests (Gibbins *et al.,* 1990). There would be more disclosure activity for a given issue or given disclosure position if structures are in place (Gibbins *et al.,* 1990).

In line with Mayorga *et al.* (2013) and Holland and Stoner (1996) this study focused only on the internal structures as it is believed external structures are less relevant to understanding how most companies manage continuous disclosure. Both studies also provide alternative ways of viewing these structures. Mayorga *et al.* (2013) is also another paper that developed the framework established by Gibbins *et al.* (1990). The paper by Mayorga (2013) would be discussed later in this section. The disclosure position, which could be opportunistic or ritualistic, helps shape the disclosure structures and both the disclosure position and structures are influenced by internal and external antecedents.

Table 4-2 below highlights the disclosure structures identified by prior studies who have adopted the disclosure management framework.

Table 4-2 Disclosure Structures

	Gibbins *et al.* (1990)	**Holland and Stoner (1996)**	**Mayorga (2013)**
Disclosure Structures	Established routine procedures for the review and authorization of disclosure.	General communication policy and the setting up of an internal responsive system **within the company.** Internal decision processes for communicating PSI and the PSI problems Setting up an investor relations function with the supporting IT system Internal controls over PSI The network of contacts with financial institutions and analysts **as a boundary response system** (Corporate to market communication structures). Setting up a network of analysts, financial institutions and press contacts	Responsible parties for managing CD. Use of various processes and training practices. Use of different types of professional and external guidance. Employment of external mediators. Individuals or groups involved in the CD process.

4.4 Application of the theoretical frameworks within the context of risk disclosure

In an attempt to examine user-perceived expectations for disclosure quality, the Gaps Model is adapted as a lens to explain the difference between users' expectations (i.e. expected disclosure quality) and their perceptions (i.e. perceived disclosure quality) on the actual disclosures delivered. This overarching discrepancy has been referred to as the fulfilment gap (Zeithaml *et al.,* 2002) and it is expressed as a function of the information gap, design gap and the communication gap as discussed in section 4.2.2. For the purpose of this study, the concept of a service will be reconceptualised as disclosure and customers as users of disclosure information. These would be used interchangeably throughout the rest of the study.

Drawing from Zeithaml *et al.* (2002), the components of the fulfilment gap or user gap (Parasuraman *et al.,* 1985; Zeithaml *et al.,* 2016) of service quality have been adapted apart from the communications gap which refers to the difference between the actual quality of the service provided and the service the firm promises to deliver through its external communications. Due to the complex and forward-looking nature of risk disclosures, firms do not make promises regarding how their disclosures are going to look. Unlike other services where promises are made in relation to the possible outcome of a service through advertisements and signed contracts, disclosure of risk-related information as a service directed at people minds is not subject to external promises.

The listening gap provides guidelines for identifying users' expectations for service quality, managements understanding of these expectations, and explaining any discrepancies between the two. The disclosure design gap then looks at the discrepancies between management's understanding of what users expect and the establishment of disclosure designs to reflect their understanding of what users expect. It is believed that the disclosure design gap is very much dependent on the disclosure designs established by management. The disclosure design gap provides the researcher with an opportunity to identify any issues embedded within the firm's disclosure designs which may cause management not to meet the users' expectations. These issues are identified as potential causes for a disclosure design gap.

Even though the authors refer to disclosure designs as the decision choices made by management in relation to how the disclosures should be presented, the Gaps Model of service quality does not provide a clear approach to examine these decision choices and the internal decision - making process undertaken by management when translating their perceptions of users' expectations into service quality specifications. For this reason, this study adopts concepts from the Disclosure Management Framework to provide an explanation on how the internal decision - making process is undertaken by management when translating their perceptions of users' expectations into disclosure quality specifications. Thus, elaborating on the concept of disclosure designs by applying the concept of disclosure position and disclosure structure to the Gaps Model as shown in figure 3 below.

The Disclosure Management Framework provides a lens for understanding the broad drivers and components of corporate public disclosure behaviour. However, this framework has been criticised for its oversimplified nature as it does not allow for an adequate change in dynamic interaction between the components of its model and fails to indicate some of the reciprocity of the relationships (Holland and Stonner, 1996; Holland, 2005). In the light of this limitation, this study focuses on users' expectations, which has been identified in prior studies as a key disclosure antecedent within a firm's disclosure management process, in an attempt to provide a detailed explanation on the degree to which user expectations are managed and incorporated within the disclosure management process (Mayorga, 2013). This allows for an examination of the interaction between user expectations for quality risk disclosures and the disclosure structures established to respond to these expectations.

In order to examine this, the Gaps Model of service quality is adapted, in the first instance, to explore user expectations for risk disclosure and management's understanding of these expectations. This is aimed at identifying any potential causes for a discrepancy between what user expectations are for risk disclosure quality and management's understandings of these expectations. Secondly, the study sheds light on the construction of disclosure designs and the degree to which the bank's risk disclosures are constructed to incorporate user expectations by taking both the Gaps Model of service quality and the Disclosure Management Framework. The researcher, therefore, develops a disclosure management framework that provides a lens for explaining the degree to which user expectations are incorporated a firm's disclosure management process.

Findings from the Disclosure Management Framework initiated by Gibbins *et al.* (1990, p128) suggests that;

> *"When management perceives an issue as having disclosure implications, any disclosure norms and opportunities are (or may be) identified. Disclosure position, mediators, and structures may influence the identification of these issues and their perceptions of associated norms and opportunities. Disclosure outputs are then generated as a function of these perceived norms and opportunities (disclosure issues) as well as any existing structures"*.

Drawing on the Disclosure Management Framework, the main disclosure issue (Gibbins *et al.,* 1990) explored within this study is the issue associated with the idea of incorporating user expectations within management's disclosure process. It is worth noting that, disclosure issues have an important influence on the firm's disclosure output as they activate the use of specific activities and procedures as well as influences the individuals and groups involved in the disclosure process. Drawing from Gibbins *et al.* (1990, p132) the current study contributes to the Gaps Model by identifying disclosure issues at both the listening and design stage of the disclosure process. It identifies these disclosure issues as potential causes for a listening and a design gap as shown in figure 3 below. It is worth noting that these may depend highly on management's knowledge about the features and the specifications for quality risk disclosures as desired by users (Zeithaml *et al.,* 2002, p369).

This study believes that, when deciding whether to disclose or not to disclose information that may reflect these expectations, management may identify some disclosure norms and opportunities within their service designs that may give rise to either an opportunistic or a ritualistic behavior (i.e. disclosure position) (Gibbins *et al.,* 1990). The firm's disclosure position may then influence the degree to which disclosure norms and opportunities are adapted in the disclosure decision-making process. These norms and opportunities determine how the firm's disclosures structures are developed. The final output of disclosure and its delivery are then generated as a function of these perceived norms and opportunities as well as management's response to the existing disclosure issues.

Figure 3 below schematically shows the new framework developed from concepts and constructs employed from both the Gaps Model of Service Quality and the Disclosure Management Framework. The study argues that in order to provide quality risk disclosures, any discrepancy between what the user expects and their perception of the actual disclosures provided should be kept to a minimal. This overarching discrepancy is termed as the fulfilment gap. As discussed earlier, the extent of a fulfilment gap (i.e. Gap 5) depends on users' expectations for risk disclosure and the degree to which management's understandings of what the information user expects aligns with what the user actually expects. Any misalignment here is said to lead to a listening gap (i.e. Gap 1).

In the first instance, the current study identifies user expectations for quality risk disclosure as either desired or adequate depending on the user's response. The researcher identified a quality of risk disclosure as an adequate expectation if the user participant makes sense as to why a particular quality might not be met and therefore has a minimum or lower tolerable expectation. If user participants do not make sense as to why a particular quality might not be met, then the researcher assumes no minimum level of tolerance in relation to that particular disclosure quality specification and it is identified as a desired expectation. Following on from that, this study discusses management's understanding on these user expectations and any potential causes for a listening gap.

Secondly, the Gaps Model argues that the extent of a fulfilment gap also depends on the disclosure designs established by management and the degree to which the users' expectations for risk disclosures are reflected in disclosure designs established. Once management establishes an understanding of what the user expects, any issues embedded within the firm's disclosure designs which may cause management not to meet these expectations are identified as potential causes for a disclosure design gap. This is where the study starts to combine the Gaps Model and the Disclosure Management Framework to provide an in-depth explanation on the disclosure designs established within management for managing disclosure and the degree to which user expectations may be incorporated. The study approaches this by exploring the process of risk disclosure design and reporting in light of users' expectations and other disclosure antecedents that may be identified by participants. Even though the fundamental disclosure antecedent explored in this study is the user expectations, the study intends to acknowledge any other disclosure antecedents identified by the participants throughout the study. The study also explores the bank's disclosure position by identifying areas where the bank may exhibit either a ritualistic or opportunistic behaviour. It is worth noting at this point that the researcher's objective is to use the newly developed model as a lens to give some structure to my findings. This will enable the researcher to make sense of the finding through the newly developed model.

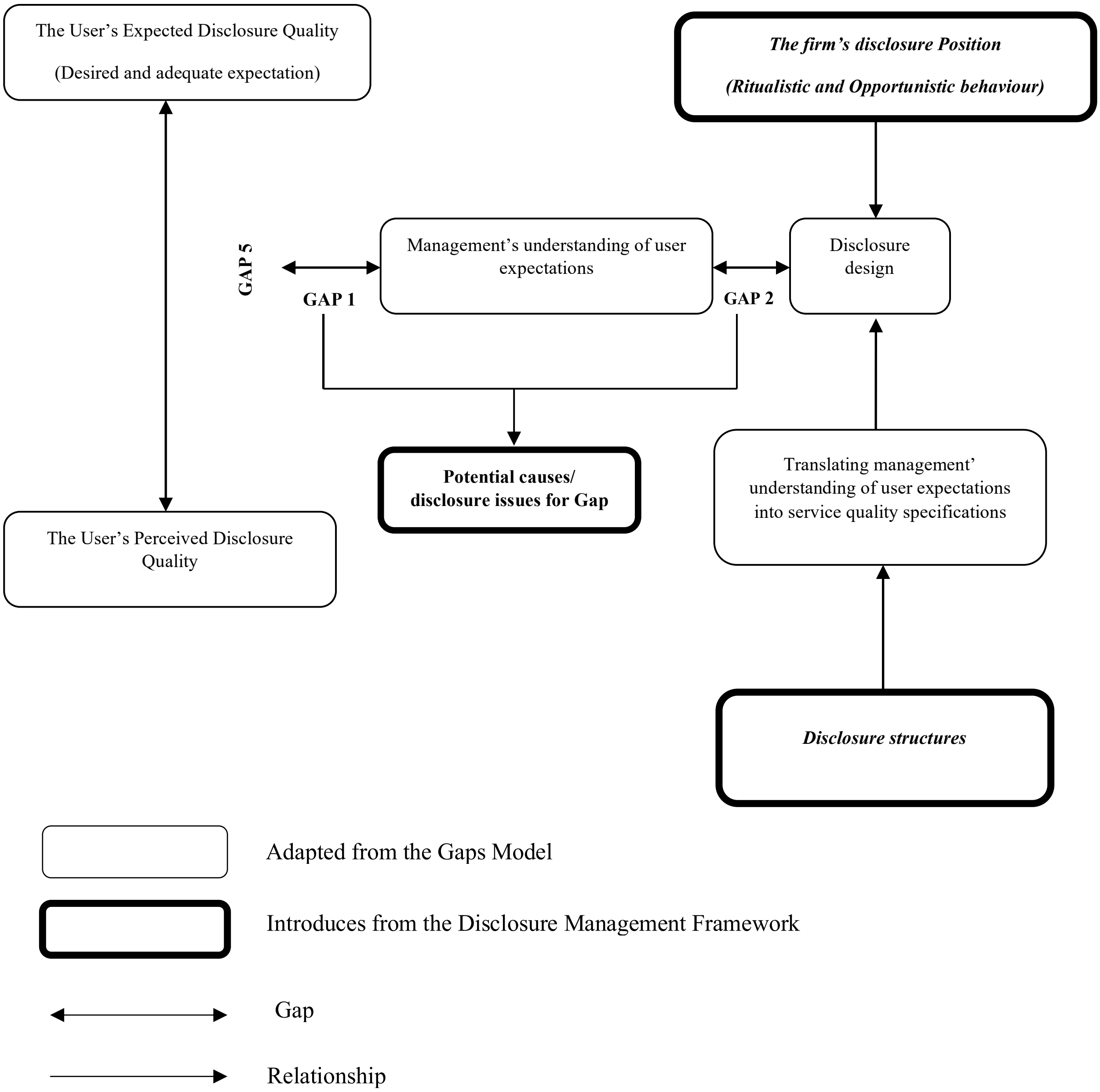
Figure 3 below illustrates the fulfilment gap (Gap 5) of service quality as a function of both the listening gap (Gap 1) and the design gap (Gap 2). Figure 3 also illustrates the potential causes for either a listening gap or a design which are eventually the potential causes for a fulfilment gap.

Figure 3 illustrates some potential causes for a listening gap (i.e. Gap 1) that may affect management's understanding of the users' expectations, which may in turn cause preparers to provide information based on what their preference is rather than what the user expects. These potential causes may activate the preparer's use of specific activities and procedures as well as influence their individual decisions when deciding whether to disclose or not disclose a particular risk-related information. Drawing from Gibbins *et al.* (1990, p132) these potential causes are identified as disclosure issues that may have an important influence on the firm's overall disclosure output. Management's response to these disclosure issues may either reflect a propensity to either adhere to existing norms (ritualistic disclosure position) or a propensity to seek a firm-specific advantage (opportunistic disclosure position), as a result of an existing disclosure issue. This is illustrated in figure 3 below. Management's preference then determines the degree to which the bank's disclosure structures are shaped to respond to these disclosure issues (Gibbins *et al.,* 1990; Lantto, 2013; Johansen and Plenborg, 2018).

The researcher believes that both mandatory and voluntary disclosures can be captured by the New Disclosure Management Framework. Whereas, the framework may be more suitable for studies on voluntary disclosures, in that it allows the researcher to explore the decision choices of preparers when disclosing information on risks that are not standardised or regulated. It also allows for an exploration of disclosure decisions made around the mandated disclosures where there is a scope for management to apply some level managerial discretion.

In relation to mandatory disclosures, in particular, the new disclosure management framework helps to identify any potential causes for a listening gap or a design gap that might have come from the regulators' influence in the risk disclosures process.

Figure 3 Adapted Service Quality Model (i.e. Gap Model) within the domain of the Disclosure Management Framework



4.5 Summary

This chapter provided the theoretical frameworks employed by the current study. Prior studies have emphasized the importance of risk disclosure quality and the degree of managerial discretion in the risk disclosure process. In an attempt to contribute to existing literature and potentially develop a theoretical framework for the management of user expectations in the disclosure management process, this study combines both the Disclosure Management Framework and the Gaps Model of Service Quality. This was to enable a discussion on users' perceptions and expectations for risk disclosure quality and the degree to which risk disclosures are managed to incorporate these. Both theories have been used extensively in different fields and contexts. Although the Disclosure Management Framework identifies users' expectations as a key antecedent to the way disclosures are managed, its simplistic nature provides limited scope in exploring the degree to which these are incorporated in the disclosure process. The Disclosure management framework was therefore used in combination with the Gaps Model which serves as a tool for examining the discrepancy between what users expect and how they perceive the current disclosures. The Gaps Model assumes that the way disclosures are presented and therefore managed influences this overarching discrepancy. Since this was the first study to adapt the Gaps Model within the context of accounting, its concepts were therefore reconceptualised within the disclosure context. The next chapter sets out the methodological and philosophical approach chosen for the current study.

Chapter 5: Research methodology and philosophical stance

5.1 Introduction

The methodological approach a researcher adopts depends on a range of factors including the purpose of the research; the process of the research; and the logic and philosophical stance underpinning the research. This chapter discusses in detail the methodological approach chosen for this research and justifies the critical assumptions underpinning the research. Specifically, it explains why a qualitative case study approach is considered appropriate for this study. Most studies in the risk disclosure literature have mainly used a quantitative approach, a content analysis and survey (e.g. Hussainey and Barakat, 2013; Linsley *et al.,* 2006; Woods *et al.,* 2009; Elshandidy and Neri, 2015; Abraham and Cox, 2007; Ryan 2012 and Dobler 2008). These studies have examined the incentives and informativeness of risk-related disclosures by developing associations between some variable such as company size, profitability, and risk levels, as well as analysing risk information content usually narratives being communicated in risk disclosure reports. Prior research has also focused on the effects of risk reports once it is released, with little focus as to how disclosure choices are made within organisations, or as to how disclosure is managed. The overarching objective of the current research is to examine the management of risk disclosure from the perspective of both managers and users to reflect user expectations on the quality of risk disclosures and the extent to which risk disclosures are managed to meet these expectations. In relation to this, qualitative research approach would be most applicable in understanding users' interpretations on their expectations of the risk disclosures provided by a UK listed bank and managers perceptions on the extent to which risk disclosures are managed to reflect these expectations. This method is in line with prior studies on the management of disclosures (e.g. Gibbins *et al.,* 1990; Holland and Stoner, 1996; Mayorga 2013) and contributes to this stream of research and literature.

5.2 Research paradigm

The starting point in every research design is determining the research paradigm. The research paradigm is the philosophical framework that guides how the research should be conducted based on the researcher's philosophy and assumptions about the world and the nature of knowledge (Collins and Hussey, 2014, p43). The philosophical framework consists of both the researcher's ontological assumptions and epistemological stance (Collins and Hussey, 2014, p49).

According to Richie and Lewis (2003), the methodological approach a researcher adopts is determined by the researchers ontological and epistemological stances which explains how the researcher examines the social world, also known as the research paradigm. This is because deciding how to study the social world has always raised a number of key philosophical debates and issues which include both ontological and epistemological issues.

Table 5-1 Key philosophical stances[1]

Ontological Stances	1. Realism 2. Materialism - a variant of realism. 3. Subtle realism/ critical realism - a variant of realism influenced by idealism. 4. Idealism 5. Subtle idealism – a variant acknowledging collective understanding 6. Relativism – a variant of idealism
Epistemological Stances	1. Positivism 2. Interpretivist

5.2.1 Ontology

The researchers' beliefs about the nature of the world and what can be known about it as well as its reality is referred to as his/her ontological assumptions (Ritchie and Lewis, 2003, p11; Collins and Hussey, 2014, p47). Assumptions about ontology are concerned with what there is to know about the world.

The decision as to how to study the social world has over the years raised a number of philosophical debates. One of the key ontological debates relates to whether there is a captive social reality and how the social world should be constructed (Ritchie and Lewis, 2003, p12). In general terms, there are three distinct ontological positions; realism, materialism and idealism. These terms, over the years, have been modified and grouped into six different ontological positions to aid in understanding the social world in less extreme terms (Ritchie and Lewis, 2003, p13). These are explained below;

Realism

An external reality exists independent of our beliefs or understanding. Under realism, a clear distinction exists between beliefs about the world and the way the world is. According to Ryan *et*

[1] Adapted from Ritchie and Lewis (2003, p16)

al. (2002), this belief is concerned with the construction of existence in objects. Thus, reality subsists within objects.

Materialism

An external reality exists independent of our beliefs and understanding. Only the material or physical world is considered real. The researchers' beliefs and mental phenomena arise from the material world.

Subtle realism/ critical realism

An external reality exists independent of the researchers' beliefs and understanding. Reality is only knowable through the human mind and socially constructed meanings.

Idealism

No external reality exists independent of our beliefs and understanding. Reality is only knowable through the human mind and socially constructed meanings. Thus, reality exists within the mind of the subject (individuals).

Subtle idealism

Reality is only knowable through socially constructed meanings. Meanings are shared and there is a collective and objective mind.

Relativism

Reality is only knowable through socially constructed meanings. There is no single shared social reality, only a series of alternative social constructions.

In this thesis, the researcher takes a subtle realistic approach accepting the view that, external reality exists independent of the researcher's beliefs and understanding. Reality is only knowable through the human mind and socially constructed meanings. Thus, it looks at what there is to know about users' expectations for risk disclosure based on their beliefs and understanding resulting from their experiences.

In addition, and with regard to the phenomenon in this study, namely the management of risk-related disclosures, the researcher believes that her interpretations of the data are based on participants views and understanding of the phenomenon. She, therefore, focuses on how users and providers of risk reporting perceive and interpret risk and the way risk reporting is managed, in order to address the following research questions;

- How is risk defined from the perspective of both preparers and users of risk disclosures?
- What are the users' expectations for risk disclosure quality and how do managers learn about and manage their responses to users' expectations?
- What are the processes preparers enact for the design and development of risk disclosures and the challenges faced in this process?

5.2.2 Epistemology

Epistemology refers to the nature of knowledge and how knowledge can be acquired (Ritchie and Lewis, 2003; Ryan *et al.,* 2002). Thus, how it may be possible to know about the world. Epistemology involves investigating the relationship between the researcher and that which is researched (Collins and Hussey, 2014, p47).

Positivism

The world is independent of and unaffected by the researcher. Facts and values are distinct, thus making it possible to conduct objective value-free inquiry and observations are the final arbiter in theoretical disputes (Collins and Hussey, 2014, p47). The methods of the natural sciences (e.g. hypothesis testing, causal explanations and modelling) are appropriate for the study of social phenomena because human behaviour is governed by law-like regularities (Collins and Hussey, 2014, p47).

Interpretivist

Interpretivist researchers reject the belief that human knowledge is external. According to Win and Kofinas (2019, p344), truth and meaning do not exist in an externalised world but are created by people's interactions with the world.

In an interpretivist research, the researcher explores and understands the social world through the participants' and the researcher's own perspectives, and explanations can only be offered at the level of meaning rather than the cause (Ritchie and Lewis, 2003, p 23). Thus, facts and values are not distinct, and findings inevitably influenced by both the participant and the researcher's perspective and values, thus making it impossible to conduct objective, value-free research, as the researcher can declare and be transparent about his or her assumptions (Collins and Hussey, 2014, p48). Interpretive researchers also seek to provide deeper and richer insights into the social nature of accounting practices, and attempts to locate these practices in their organisational, economic and social contexts. This type of research adopts a holistic orientation (Ryan *et al.,* 2002, p145).

In this thesis, the researcher takes an interpretivist view on epistemology, as to how knowledge can be acquired about the world. The researcher believes that facts and values are not distinct, and findings are inevitably influenced by the researcher's perspective and values and that the social world is mediated through the understandings and meanings of both her view and the participants' views (Ritchie and Lewis, 2003). Therefore, the methods of the natural sciences may not be appropriate to some extent because the social world is not governed by law-like regularities but is mediated through meaning and human agency; consequently, the social researcher is concerned to explore and understand the social world using both participants' and the researcher's understanding (Ritchie and Lewis, 2003).

Ryan *et al.* (2002, p145) state that the role of research is to derive universal laws or theories about the world. It is largely accepted, especially in the social sciences, that it may be necessary to regard such universal laws and theories as statistical generalisations. Thus, statements about the likelihood of particular occurrences in a population (Ryan *et al.,* 2002, p145). However, statistical generalisations tend to simplify our understanding of empirical observations and therefore do not provide explanations of individual cases (Ryan *et al.,* 2002, p145). Ryan *et al.* (2002, p145) highlight that an alternative to this would be to provide explanations on empirical observations in their specific context by developing theories that explain individual observations. This approach is usually known as the holistic approach. The holistic approach is based on the belief that social systems develop a characteristic wholeness or integrity and it is inappropriate to study their individual parts taken out of context (Ryan *et al.,* 2002). The holistic research method seeks to explain and locate a particular social system in their practical context and case studies do play a role in this type of research, studying accounting as part of the broader organisational and social systems of which it is part (Ryan *et al.,* 2002, p145).

In relation to this, the table 5-2 below highlights the potential of case study research, by differentiating these between the positivists and the interpretivist research approaches. This study adopts an interpretive case study research epistemological approach.

Table 5-2 Differences in case study research

Type of Research	Positivist	Interpretivist
View of the world	External and objective	Social Construction
Types of study	Exploratory	Explanatory
Nature of explanation	Deductive	Pattern
Nature of generalisation	Statistical	Theoretical
Role of theory	Hypothesis generation	Understanding
Nature of accounting	Economic decision making	Object of study

Reference: Ryan *et al*. (2002, p146)

5.2.2.1 View of the world

Interpretivist researchers believe that social systems are socially constructed and, as such, can be changed by human actions and the activities of individuals located within a specific social context. Thus, the purpose of an interpretivist researcher is to develop a theoretical framework that is capable of explaining the holistic quality of observed social systems and the practices of human actors.

The positivist researcher, on the other hand, seeks to identify relationships between variables in a world that is seen to be objective and external to the researcher. In positivist research, case studies are inevitably exploratory, as the core of this form of research programme entails the empirical testing of hypothesis.

5.2.2.2 Pattern versus deductive modes of explanation

For interpretivist researchers, the relations between the various parts of a particular social system being studied and the system's own relationship with the larger system of which it is part (that is, its context) serves to provide some explanations of the social system.

This type of explanation is what Kaplan (1964) termed the "pattern model of explanation". With the pattern model of explanation, the researcher seeks to identify a pattern in the case and uses theories to explain the observed relations. Where existing theories do not provide convincing explanations, then new theories may have to be developed or existing theories modified (Ryan *et al.,* 2002, p147).

According to Ryan *et al.* (2002, p147), the traditional scientific mode of explanation in the social sciences, especially in economics and accounting, relies on a process of deduction where a particular occurrence or a relation is explained by deducing it from one or more general laws. This approach is mainly used by positivist researchers.

Ryan *et al.* (2002, p147) posit that, although the deductive model of explanation provides predictions of occurrences at the empirical level, based on more abstract general laws or theories, it does not provide explanations of those occurrences. This is because statistical generalisations do not explain, they only indicate the statistical regularities that may or may not apply in specific cases (Ryan *et al.,* 2002, p148).

5.2.2.3 Generalising from case studies

The purpose of the positivist researcher is to determine the extent of particular occurrences in a given population and this in comparison to an interpretivist research causes the interpretive researcher to apologise that the size of their sample creates difficulties in generalising their findings (Ryan *et al.,* 2002, p148).

In research, the researcher usually selects a sample from a population and attempts to draw inferences. From that perspective, Ryan et al. (2002, p151) highlight that a case study is a small sample from which it is difficult to make a statistical generalisation about the population from which it was selected.

Statistical generalisations are therefore problematic in interpretivist research, where the findings of a case study are inherently context-specific. However, the objective of such research is to develop theoretically informed understandings that provide explanations of the observed phenomena. In relation to this, Yin (1984, p39) supports the view that researchers should not be concerned with producing statistical generalisations, but should rather be concerned with theoretical generalisation. Theoretical generalisation attempts to generalise theories so that they explain the observations that have been made, whereas, statistical generalisation is concerned with statements about statistical occurrences in a particular population.

In this case, the researcher comes to the case with knowledge of existing theories, and these will assist in the pattern modelling process. In analysing the case, the researcher will then examine whether the observations can be explained by the existing theory and if not, the theory will have to be modified.

5.2.2.4 Role of theory

As discussed above, the interpretivist researcher believes that reality is not independent of the social world. Rather, the social world is constructed and given meaning by human actors (Bryman and Bell, 2015). In interpretive research, especially in case study research, theory plays a central role as both the input and the output of the research process. Thus, the existing theory is initially used to make sense of case study observations, but through these observations it may be found that the theory needs to be refined, verified, modified or even rejected (Ryan *et al.,* 2002, p150; Welch *et al.,* 2011, p755). In doing this, the researcher adopts a deductive research approach at the early stages of the research by using existing theory and literature to give a richer picture of the field and to guide the data collection process. After which an inductive approach is used to accumulate, analyse and connect relationships between verified facts identified from the data in a coding process. There has been also an epistemological debate about the relative merits of induction and deduction. Induction looks for patterns and associations (theory) derived from observations of the world. Deduction generates propositions and hypotheses theoretically through a logically derived process. Although qualitative research is often viewed as a predominantly inductive paradigm, both deduction and induction are involved at different stages of the qualitative research process (Ritchie and Lewis, 2003).

Using a qualitative case study approach, this study employs this interpretivist approach to research and uses the chosen theoretical framework as a lens to guide the construction of the interview question in the first instance. This enables the researcher to make sense of the field, questioning the theories and combining them into one that explains and provides insights into the research objectives much better than any one of them can produce on their own.

In line with Alvesson and Sandberg (2011), the current study uses problematization as a methodology to construct gaps underlying existing literature and theory, starting with specific metatheoretical position (i.e. epistemological and ontological stance) (Tsoukas and Knudsen, 2004). Based on this, the researcher uses this methodological approach to challenge existing theoretical assumptions in order to construct novel research questions in an attempt to lead to the development of a more influential theory. Abbott (2004, p87) states that:

> *The problematization methodology supports a more reflective scholarly attitude in the sense that it encourages the researcher not only to use his or her own favourite theoretical position but to start using different standard stances to question one another and*

> *combining them into far more complex forms of questioning than any one of them can produce alone.*

The researcher believes that adopting such an approach would present an opportunity to explore, in a reflective manner, new ways of thinking about organisations (Daft and Lewin, 2008; Alversson and Sandberg, 2014).

5.3 Research methodological approach

5.3.1 Qualitative research approach

According to Denzin and Lincoln (2000, p3), "qualitative research is a situated activity that locates the observer in the world consisting of a set of interpretive, material practices that makes the world visible". These practices turn the world into a series of representations including field notes, interviews, conversations, photographs, recordings and memos to the self. Qualitative research gives the researcher the opportunity to study people in order to understand and interpret their social reality (Bryman, 1988, p8).

Qualitative research is directed at providing an in-depth and interpreted understanding of the social world of research participants by learning about their experiences, perspectives and histories for rich, in-depth and extensive data. (Ritchie and Lewis, 2003, p3). This method allows for a close contact between the researcher and the research participants, which are interactive and developmental and allow for emergent issues to be explored in detail (Richie and Lewis, 2003, p3). Boeije (2010, p11) states that, "The purpose of qualitative research is to describe and understand a social phenomenon in terms of the meaning people bring to them." Therefore, the qualitative researcher is able to describe an issue or a phenomenon in their own words and as such this method is appropriate for addressing research questions that require explanations to a social phenomenon and their context (Ritchie and Lewis, 2003, p7; and Boeije, 2010, p11).

However, qualitative research has its limitations just as any other research method. In qualitative research, it is difficult to generalize because the data are based on local, particularistic data. Another weakness is that different qualitative researchers might provide very different interpretations of the phenomena studied. This is because qualitative research is often subjective and interpretive in nature. Nonetheless, qualitative data can provide a useful complement to quantitative data and are very useful when the research purpose if exploratory and descriptive (Christensen *et al.,* 2015).

The qualitative research would be appropriate for this study, as the quantitative approach does not recognise the perceptions and experiences of respondents (Langdridge, 2004, p21). This research approach will also provide rich insights into examining the management of risk reporting and the different user expectation and how these are incorporated in risk reporting practices.

According to Ritchie and Lewis (2003, p1), there is no single, accepted way of doing qualitative research. Thus, how researchers carry it out depends on a range of factors including their beliefs about the nature of the social world and what there is to know about the social world (ontology), the nature of knowledge and how it can be acquired (epistemology). According to Oppenheim (2005), the different techniques for generating and collecting data under the qualitative approach to research include; questionnaires, interviews, observation, case studies and focus groups. This study intends to employ a qualitative case study approach, in the form of semi-structured interviews and documentary evidence.

5.3.2 Case studies and justification for selected qualitative research approach

According to Yin (1984, p23), a case study is an empirical inquiry which investigates a contemporary phenomenon in-depth within its real-life context. A case study often involves data collection through sources such as documentary evidence, interview data, direct observation and participant observation (Ghauri and Gronhaug, 2010, p109; and Smith, 2003, p136).

According Ryan *et al.* (2002, p142) case studies usually refer to a single unit of analysis (e.g. an individual, a group, a company, an organisation, an event, a problem or an anomaly), but it could also be a more aggregated unit of analysis (Burawoy, 2009). Fiss (2009) highlights that, the potential advantage of a single case study is often seen in the detailed description and analysis of the case where the researcher gains a deeper understanding of how and why things happen. Thus, single case studies strengthen the possibility of context-related rich descriptions.

Case studies offer the researcher the opportunity to understanding the nature of accounting in practice; both in terms of the techniques, procedures, and systems used, as well as the way in which these are used (Ryan *et al.,* 2002, p142). The use of case studies in accounting can be linked to considering accounting as social and organisational practices rather than transactions and techniques (Ryan *et al.,* 2002, p142).

The objectives of the current study are in line with the case study research design by Stake (1995, 2000, 2005), which is based on constructivist assumptions to explore the social construction of reality and meaning (Schwandt, 1994, p 125). This is in line with the philosophical approach adopted in this study with the view that, there is no unique external reality independent of human beliefs and understanding. Reality is only knowable through the human mind and socially constructed meanings.

Ryan et al. (2002, p143) identifies five different types of case studies in accounting: 1) descriptive case studies; 2) illustrative case studies; 3) experimental case studies; 4) exploratory case studies; and 5) explanatory case studies.

5.3.2.1 Exploratory case studies

This type of case study allows the researcher to look for patterns and ideas to develop the reasons for particular accounting practices and to generate hypothesis about the reasons for particular accounting practices rather than to test a hypothesis (Ryan *et al.,* 2002, p144; and Collins and Hussey, 2014, p4). Collins and Hussey (2014, p4), states that an exploratory research is conducted into a research problem or issue when there are very few or no earlier studies to which we can refer for information about the issue or problem. This type of research assesses which existing theories and concepts can be applied to the problem and whether new ones should be developed and rarely provides conclusive answers to research problems or issues but gives guidance on what future research should be conducted (Collins and Hussey, 2014, p4). In exploratory research, the focus is on gaining insights and familiarity with the subject area and generating a set of hypotheses for more rigorous investigation at a later date (Collins and Hussey, 2014, p4).

5.3.2.2 Descriptive case studies

Descriptive case studies are used to describe accounting systems, techniques and procedures used in practice (Ryan *et al.,* 2002, p143). Collins and Hussey (2014, p4) posit that descriptive research is usually used to identify and obtain information on the characteristics of a particular problem or issue. Unlike exploratory research, descriptive research goes further to examine the problem by ascertaining and describing the characteristics of the pertinent issues (Collins and Hussey, 2014, p4).

5.3.2.3 Illustrative case studies

Illustrative case studies are used to illustrate new and possibly innovative practices developed by particular companies and illustrating what has been done and achieved in practice (Ryan *et al.,* 2002, p143).

5.3.2.4 Experimental case studies

Experimental case studies are used to develop new accounting procedures and techniques that are intended to help accounting practitioners, usually developed from existing theoretical perspectives (Ryan *et al.,* 2002, p144).

5.3.2.5 Explanatory case studies

Explanatory case study focuses on a specific case and explains the reasons for a particular accounting practice. With this type of case study, the theory is used to understand and explain the specific case, rather than to produce generalisations. In the case where the theory/theories do not provide such explanations, it will be necessary to modify the existing theory or develop a new theory (Ryan *et al.,* 2002, p144).

The current study intends to employ an explorative case study approach, in the form of semi-structured interviews and a documental analysis to study the management of risk disclosures in a UK listed bank and the relationship between different elements of risk disclosure. According to Collins and Hussey (2014, p 133), interviews are a method for collecting data in which selected participants are asked questions to find out what they do, think, or feel. Under an interpretivist paradigm, which is the paradigm adopted in this study, interviews are concerned with exploring data on the understandings, opinions, attitudes, and feelings of those interviewed (Arksey and Knight, 1999, p2).

Ghauri and Gronhaug (2010, p126) identifies three types of interviews: a) structured interviews; b) semi-structured interviews; and c) unstructured interviews. Structured interviews are usually in a standard format with an emphasis on; fixed response categories; systematic sampling and some statistical methods (Ghauri and Gronhaug, 2010, p126). With unstructured interviews, on the other hand, the interviewer gives lead questions and the respondents are given almost full liberty to discuss reactions, opinions, and behaviour on a particular issue (Ghauri and Gronhaug, 2010, p126). According to Collins and Hussey (2014, p133), unstructured interviews are usually in the form of asking questions that are not prepared beforehand but tend to evolve during the course of the interview.

Ghauri and Gronhaug (2010, p133) and Sekaran (2003, p225) points out that semi-structured interviews differ from unstructured interviews, in the sense that the topics and issues to be covered, sample sizes, people to be interviewed and questions to be asked have been determined beforehand. With semi-structured interviews, the researcher prepares some questions to encourage the interviewees to talk about the main topics of interest and develops other questions during the course of the interview (Collins and Hussey, 2014, p133). In order to gain in-depth and rich data, this study intends to use a qualitative case study approach, in the form of semi-structured interviews and documentary evidence.

The current study uses a single case study approach, where a single company is explored in detail in an attempt to gain a deeper understanding of how and why things happen (Ryan et al., 2002, p142). This approach is particularly important for this study because by investigating a phenomenon around a particular case, it allows the researcher to identify key constructs of the phenomena which would guide the development of the new framework questioning. The framework, once developed, could then be applied and tested in a multiple case study.

5.3.3 Limitations of the use of case studies

One problem with case studies is the difficulty in drawing boundaries around the subject matter of the case. According to Ryan *et al.* (2002, p159), the interpretive perspective emphasises the importance of locating accounting practices within the context of the wider organisational, economic and social systems of which they are a part of. But the issue here has to do with how far the researcher has to expand the case in studying interrelations with other and broader systems.

Case study researchers, therefore, place limits on the subject matter or area of study so as to permit a detailed study of the area and allow other researchers to extend the work into other areas.

Secondly, another weakness of case study stems from the nature of the social reality which is being researched. Unlike natural systems, social systems cannot be understood independently of human beings, and the researcher cannot be regarded as a neutral independent observer. The researcher interprets the social reality, and this emphasises the problem of researcher bias. According to Ryan *et al.* (2002, p159), it may be possible to reduce such bias in the collection and assessment of evidence by using a team of researchers with different backgrounds

Thirdly, the ethical issues of the researcher's relationship with his or her subjects is another weakness in case study research. In most cases, access may only be secured if confidentiality is assured. In addition, subjects may be much more open in their dealings with the researcher if they are confident that the information disclosed will be treated in confidence. This raises particular problems in writing case reports. For instance, it may be necessary to disguise the identity of the organisation studied in order to obtain detailed confidential information. Furthermore, in a study of the relationship between members of an organisation, it may be necessary to guarantee the confidentiality of information received within the organisation.

Maintaining such confidence within an organisation may prevent the researcher from checking the validity of evidence through feedback to the subjects. Other means of checking must then be found, for example, observing the subject's actions, examining documentations and appropriate questioning of other subjects (Ryan *et al.,* 2002, p159).

5.4 Data collection and analysis

This study combines empirical evidence from the data collected with theoretical explanations from both the service quality model initiated by Parasuraman *et al.* (1985) and reconceptualised by Zeithaml *et al.* (1993; 2002;2016), as well as the Disclosure Management Framework initiated by Gibbins *et al.* (1990) to provide a new understanding of how risk disclosures are managed to incorporate user expectations in the case of a UK listed bank.

Despite the growing interest for risk disclosure in the accounting literature on the importance of risk disclosures to different risk disclosure audiences (e.g. Beretta and Bozzolan, 2004; Linsley and Shrives, 2006; Moumen et al. 2015; Al-hadi et al., 2016 and Scannella and Polizzi, 2017), the extant studies have neglected the perspectives of preparers in the management of risk disclosures. The semi-structured interviews were used as the main tool for data collection. Whilst there have been studies on the management of disclosure in relation to price-sensitive information and corporate disclosures, there is a gap on the management of corporate disclosures to incorporate user expectations (Holland and Stoner, 1996; Mayorga 2013). Research on this area is important because even though prior studies on the management of disclosure do not examine user expectations, their findings show that managing the disclosure of material information reflects the nature of learning how to identify *user expectations* and how to meet the different audience disclosure expectations (Holland and Stoner, 1996; Mayorga 2013). Thus, the management of user-expectations plays an important role in the management of corporate disclosures.

In an attempt to address this gap, the current study seeks to explore the process for managing risk disclosures and the challenges faced by management in the process. It also aims to investigate user expectations for risk disclosure quality, management's response to these and the degree to which these are incorporated into the risk disclosure management process. The users chosen for this study includes mainly equity research financial analysts who follow the case bank, UK bank regulators and fund managers from institutional investment companies of the case bank. Data collected from risk information users such as credit analysts, lenders and auditors would have provided insights into the research objectives for this thesis. However, the participants who responded to the researchers call to participate in this study were sell-side equity research analysts, fund managers from institutional investors and the regulators. For this reason, the study focused on these three risk information user groups.

Financial analysts were chosen because their main activities as analysts relate to conducting fundamental research, based on the disclosures publicly provided by companies and supplying a more detailed understanding of the company's value creation process, strategy and business model (Nielson, 2008). Equity research analysts are also responsible for assessing the motives and merits, as well as providing coverage, for security offerings (Cox and de Goeij, 2020). It is believed that security offerings are characterised by asymmetric information between management and its investors whose informationally disadvantaged position may compromise their ability to assess the credibility of an offering (Cox and de Goeij, 2020). Prior research argues that as financial analysts, their assessment of the bank's risk through its disclosures is economically important in influencing the investor's perception on the bank's risk profile (Hope *et al.,* 2016).

Institutional investors were also chosen because they are often interested in the disclosures in order to improve their understanding of the company's risk profile and increasing their ability to anticipate and access the company's future economic performance. Regulators also play a vital role and are key influencers in the provision of risk disclosures and are responsible for establishing regulatory requirements on these to facilitate financial strength and to pressurise and encourage companies to provide adequate risk disclosures. In relation to this, it is therefore believed that discussions with these agents on their experience on risk disclosures will provide detailed insights into an understanding of their expectations and perceptions on the risk disclosures provided by the bank. Table 5-3 below shows a list of interviews, roles of participants, length of interview and type of interview.

Table 5-3 List of interviewee participants from the Bank and its users

Actor Category	Role	Reference	Type of interview	Length of Interview
Bank in focus	Head of risk reporting, governance and delivery (line 2 management).	HoRGRD	Face-to-face	103 mins
	Director of risk and investments (Line 1 management).	RD	Face-to-face	51 mins
	Audit committee member and risk committee.	ACM	Face-to-face	43 mins
	Director, risk assurance and internal audit (Line 2 management).	DRA	Face-to-face	58 mins
Regulator	Member of the prudential regulation committee	R1	Face-to-face	56 mins
	Regulator for accounting disclosures at the PRA.	R2	Telephone	51 mins
	Financial data specialist at the PRA	R3	Face-to-face	52 mins
	Senior risk specialist, capital management at the PRA	R4	Telephone	46 mins
	Project Director of the Financial Reporting Lab at the FRC	R5	Face-to-face	58 mins
	Lab Director of the Financial Reporting Lab at the FRC	R6	Telephone	50 mins
	Director of Financial Reporting Policy, member of the IFRS interpretations committee	R7	Telephone	42 mins
	Director of financial reporting	R8	Telephone	58 mins
Financial analyst	Equity research analyst	EA1	Face-to-face	40 mins
	Equity research analyst	EA2	Face-to-face	32 mins
	Equity research analyst	EA3	Telephone	52 mins
	Audit analytic	EA4	Telephone	37 mins
	Equity research analyst	EA5	Face-to-face	45 mins
	Managing director and equity research analyst	EA6 & EA7	Face-to-face	75 mins
Fund Manager	Investment Director, Fixed Income	FM1	Face-to-face	45 mins
	Head of Financial Research, Credit	FM2	Face-to-face	59 mins
	Global Banks and Financials Analyst	FM3	Face-to-face	62 mins
	Head of Compliance	FM4	Face-to-face	49 mins

5.4.1 Data collection

The case study approach chosen for this research focuses on a single UK listed bank (Bank A), in the FTSE 250, and the establishment of their risk disclosures within their annual report and pillar 3 disclosures. In the sample selection process, the researcher started with a detailed record of all the UK banks listed in the FTSE 100 and 250 as at September 2018. This comprised a sample of about ten banks. The study then included users of the risk disclosures provided by Bank A, including financial analysts, fund managers, auditors and regulators. However, the researchers got responses mainly from equity research analysts, fund managers of the institutional investors of Bank A, and the regulators. The financial analyst reports produced on the case bank (Bank A) were used to obtain the contact details of equity research analysts who follow Bank A. These reports were obtained from the Thompson one database. The names of the bank's key institutional investors were obtained through an online search in the investor relations section of Bank A's website. The contact details of fund managers within the institutional investment banks that had investments in Bank A were then obtained from their company's website. They were then contacted through email, LinkedIn and letters.

The regulator participants were also selected from the Prudential Regulatory Authority (PRA) and the Financial Reporting Council (FRC). However, a few other participants were chosen from the IFRS Interpretations Committee and a member of the European Financial Reporting Advisory Group (EFRAG). These bodies were considered because of their active role in providing some guidelines and standards on the risk reporting practice in the UK. The names and contact details of the regulators were obtained from the website of the PRA and LinkedIn. They were then contacted through email, LinkedIn and letters.

All user participants who participated in this study had an interest in the risk reports provided by the bank in focus one way or another. This was the primary criterion for selecting participants. Of these, seven regulators, seven equity research analysts and four fund managers from two of the bank's main institutional investors found the study interesting and decided to partake in it.

All the corporate managers who participated in the study had an active involvement in the risk disclosure process. In selecting preparer participants, emails and letters were sent to all the listed UK banks within the sample. However, a response was received from one bank and the researcher was connected to the bank's Head of risk reporting, governance and delivery. Other participants such as the Member of the Audit Committee, the risk director and the director of risk assurance of Bank A were contacted through LinkedIn. Bank A's external auditors were also contacted, because of their unique role in the corporate reporting process and in ensuring that the corporate disclosures provided are true and free from any material misstatements. However, all attempts failed after a number of messages and follow up messages were sent to external auditors, and it was very difficult to get external auditors to agree to participate in the study.

To ensure anonymity and data confidentiality, pseudonyms are used to represent the names of participants and the bank used. In relation to the research objective, user participants were interviewed first in order to understand their views and expectations on risk disclosure quality. After which, preparer participants were then interviewed to obtain their responses to the information obtained from users as well as the processes associated with managing risk disclosures.

A semi-structured interview protocol was developed for both the risk reporting managers and users of the disclosures provided. A variety of questions were constructed including; how important risk disclosures to participants are and what are their expectations; the decision choices associated with managing risk reporting and deciding what to disclose and what not to disclose; the parties involved; and how these are managed to reflect user expectations on the quality of risk disclosures. Before commencing each interview, the researcher introduces the research topic, aims and objectives. Following on from this, the participant's written and verbal consent was sought.

In addition to the semi-structured interviews, data was also collected from documents including Bank A's annual report, pillar 3 risk disclosure reports and the risk disclosure regulatory requirements. The researcher drew upon these multiple sources of evidence in an attempt to seek convergence with the data collected from the interviews (Yin, 1994).

5.4.2 Data analysis

Information from previous literature and documentary evidence was used to support the construction of the interview questions. The documents gathered were reviewed in-depth to inform the researcher's knowledge of the case Bank and its risk disclosure regulatory environment. These included, pillar 4 risk disclosure reports, annual reports and the regulations around the preparation of these reports. Also, other documents were obtained from the case company's website. As mentioned earlier a semi-structured interview-based case study was used as the research method. Once the interviews were conducted, each interview data was transcribed by the researcher. After which the transcribed interviews were then recorded and listened to several times by the researcher to facilitate understanding and familiarity. The transcribed interview scripts were read several times by the researcher. The data analysis continued with a coding process, with the help of the

Nvivo qualitative software program that was used to organise the data. The transcribed interviews were uploaded onto the NVivo software programme after which the researcher manually coded the text by reading each interview transcript line by line and categorising relevant sentences and paragraphs into themes and sub-themes. The transcribed material from the interviews and the coding process was validated by the researcher's supervisors. The themes and sub-themes generated from the interviewed data was submitted to supervisors for validation.

According to Suddaby (2006, p638), qualitative software programs can be used in organising and coding data, but there are not suitable for interpreting the data. Therefore, all the case data transcriptions were manually analysed, coded and classified into themes and concepts by the researcher using an interpretive process.

In the initial stages of the coding process, the categories and concepts of the gaps model (i.e. listening gap, design gap and the fulfilment gap) as well as concepts from the Disclosure Management Framework (DFM) (i.e. disclosure structures, disclosure position), served as guidelines from which themes were identified and developed. The overarching category of themes was on user expectations. Under this category, different themes unfolded from the interviews, mainly from user participants, on their expectations for risk disclosure quality. There were a few predetermined themes that form part of the interview questions. In the initial stages, risk disclosure quality themes were predefined based on the Bank for International Settlements (2015) main principles for the pillar 3 risk disclosure best practice, other regulatory guidelines, prior literature and the theory. It is worth noting that these regulatory descriptions of disclosure quality are publicly available and therefore have the tendency to underpin what users regard as a norm in relation to risk disclosure, together with users' experiences.

A specification for risk disclosure quality was categorised as an expectation based on the number of times it was raised by different participants and the concerns raised by interviewees regarding that quality. Once the initial themes were developed, the researcher identified links and relations between the themes.

Further to this and in relation to the listening gap, management were asked their views and responses to these expectations and the degree to which user expectations were considered during the disclosure management process. In relation to this, interviewees were asked their expectations and perceptions on disclosure quality based on the concepts of the model; the qualities identified from the literature and the other qualities identified by the interviewees themselves. These expectations were then grouped by the researcher into either desired expectations or adequate expectations based on users' responses and in relation to Zeithaml *et al.* (1993). According to Cadotte *et al.* (1987) and Zeithaml *et al.* (1993) experience is a key source of adequate expectations or the experienced based norms (Woodruff *et al.,* 1983). Thus, user experiences also have a high tendency to increase what users are willing to accept in relation to risk disclosure. This is a key reason why the researcher uses semi-structured interviews to help capture these experiences from participants through face to face and phone interactions. A summary of the research instrument for each of the participants is provided in the appendix and outlines the main interview questions.

5.5 Ethical considerations

Social research in recent years emphasises the importance of considering the way in which individual researchers constitute legitimate and justified knowledge of the social life, as well as the way in which other participants involved are treated. Thus, researchers are expected to apply ethical principles including, informed consent, and the avoidance of deception as ways of governing their research activities (Kovalainen and Eriksson, 2008). These principles affect the way the research is conducted and collated, as well as the way participants' views are quoted and published. It is believed that research ethics should be considered throughout the whole research process. Starting with the relationship between the researcher and the research object, and ending with the writing up and the published report (Kovalainen and Eriksson, 2008).

The data collection process research is crucial, especially in qualitative research. This is because qualitative research involves the engagement of human participants and the discussion of research ethics often centres around obtaining an informed consent which can sometimes be problematic. According to Smith (2003) participants would often need to be convinced that there is '*something in it for them*' before granting permission to participate in the research (Smith, 2003)

In the current study, the researcher intends to guard the anonymity of informants by considering the ethical issues that may emerge in the research. Deception, the invasion of privacy, lack of anonymity as well as confidentiality could cause harm to informants. An irreversible process is used in this case whereby the researcher removes anything that might identify with the participant and replaced names and institutions with pseudonyms.

Considering the sensitive nature of discussing risk, it was expected that participants would feel the need not to share some sensitive thoughts with the researcher. In relation to this, the research clearly outlined the aims and objectives of the research in a participant's information sheet and highlighted areas to be covered in the interviews. The participant information sheet was distributed to participants prior to the interviews. Participants were also given the choice to sign an informed consent in order to assure them that they have a choice to either participate or not to partake in the study. This was all part of the ethical approval process the researcher had to undertake prior to the start of the data collection process for the primary data. Samples of these forms are provided in the appendix.

Another fundamental part of the research is the issue of trust created between the researcher and the research community. Researchers are therefore expected to create and maintain a relationship of trustworthiness between themselves and the research community that would not be violated during the research process (Creswell, 2013; Schwandt, 2001).

5.6 Summary

This chapter provides details into the researcher's philosophical stance, the methodological approach, chosen data collection and analytical methods.

The researcher takes a social constructivist approach in accepting the view that, no external reality exists independent of our beliefs and understanding. Reality is only knowable through the human mind and socially constructed meanings. An interpretivist theoretical stance is adopted. This is an appropriate approach to address the research question, with providing insights into users' perceptions and expectations for quality risks disclosure and the degree to which management incorporate these. This provides an opportunity to explore the understandings of both users and preparers about risk disclosure.

This study utilises a qualitative case study which involved semi-structured interviews with a top UK bank and users who had some interest in that particular bank.

The above chapters have provided details on how the research would be undertaken. Chapter 6,7, and 8 below provide an analysis of the findings gathered.

Chapter 6: The definition of risk within the context of Bank ‘A’.

6.1 Introduction

In order to examine the quality of risk disclosures, it is important to define risk. The chapter presents findings on the definition of risk from the perspectives of the different stakeholder groups who have an interest in the risk disclosures provided by Bank A. This is an important chapter as it provides a starting point to understanding the different perspectives of the individual participants with regards to risk and risk disclosure.

Prior studies provide several definitions for risk ranging from risk as a loss or any uncertainty with negative outcomes (Lupton, 1999; Horcher, 2005), to risk that carries the potential of either a gain or a loss (Hodder et al., 2001, Mokhar and Mellet, 2013). Despite the different perspectives on the definition of risk in the literature, there is currently no agreed definition of risk. In an attempt to respond to the varied views on the concept of risk and its definition, the researcher explores the concept of risk from the perspectives of the different interviewee participants in order to conceptualise and distinguish their views on risk.

The definition of risk from the perspective of different user groups is an area which would provide insights into the usefulness of risk disclosures. However, this is currently lacking in the risk disclosures literature.

The chapter is structured as follows. Section 6.2 some finding on participants perceptions on the concept of risk and section 6.3 ends the chapter with a conclusion.

6.2 Preparer’s perspective on the definition of risk

From a manager’s perspective “*risk is anything that could potentially affect the bank’s financial performance and its ability to continue as a bank”* HoRGRD. The HoRGRD claims that, when thinking of risk, the bank would always start by considering anything that could affect its financial performance and strategy. She states that;

> *“risk is always a downside but we might be willing to take a bit of that downside in order to get a higher reward and what the risk management function that I work with has to do is to make sure we’re balancing that risk and reward appropriately so we will have to take risks because you can’t ever mitigate against all of them but what risks are we willing to take and what risks are we willing to say I’m not willing to take whatsoever”* HoRGRD.

According to HoRGRD, the effect of this uncertainty on the bank's financial performance is considered to have a negative outcome in the first instance. However, she argues that the ability of the bank to manage this risk could determine whether this effect would result in a positive outcome which she identifies as the reward. In this instance, the negative effect of the uncertainty is considered as a risk, and the positive effect of the uncertainty is considered as a reward.

Thus, even though risk is referred to as the occurrence of an event that could negatively affect the bank's objective, strategy, or result in a financial loss, it also acknowledges the potential of a reward resulting from that event. Hence, referring to risk as *"the probability of an event occurring, which could either positively or negatively impact the bank's ability to achieve a strategy"* DRA. This definition is provided by the Director of Risk Assurance in Bank A.

> *"So, in the bank, we usually talk of risk to be the likelihood of something happening and the impact of it happening"* DRA.

This definition of risk is similar to the modernist view which refers to risk as both the negative and positive outcomes of events (Linsley and Shrives, 2006; Mokhtar and Mellet, 2013; Ibraham and Hussainey, 2019). The modernist view of risk concentrates on the fact that the concept of risk could involve either a positive effect (i.e. opportunity, prospect and potential gain) or a negative effect (i.e. harm, hazard, danger, damage, threat or potential loss) (Schrand and Elliott, 1998; Solomon *et al.,* 2000; Hodder *et al.,* 2001; Elmiger and Kim, 2003; Abraham and Cox, 2007; Damodaran, 2008; Elshandidy, 2011).

Additionally, management refers to risk as anything that can cause the bank to do something different from which it originally planned, which could either result in a positive or a negative effect on the business (RD, DRA). In an attempt to respond to risk, management would often take measures either from within or outside of their original plan to control the risk. However, the measures taken by the bank to address a potential risk could determine whether it would have a positive effect or a negative effect (RD). Thus, the ability of the bank to manage this risk could determine whether this effect would result in a positive or a negative outcome.

According to the Risk Director, this is very important for the bank because, if a bank is able to identify a potential risk early, it can then become a competitive advantage as some risks have the potential to turn into an advantage for the bank over other competitors (RD).

> *"…Risk to me is any kind of event that can be both commercial, regulatory or from an operational perspective. So, for me risk refers to any kind of threat that will not necessarily*

negatively impact your business but perhaps have some impact on your business and cause you to do something different which may result in a positive…" RD

"Risk is effectively the probability of an event occurring, which could either positively or negatively impact the bank's ability to achieve a strategy. So in the bank, we usually talk of risk as the likelihood of something happening and the impact of it happening..." DRA.

This perspective on risk is linked to the definition of risk as a function of likelihood and impact. Where impact refers to the extent to which a risk event might affect the business (Deloitte and Touche LLP, 2012). From the above analysis, the impact of risk is highly dependent on the ability of management to control and manage the direction of the impact an uncertain event may have. According to the Risk Director (RD), the bank's ability to control the impact of a risk, especially for new and emerging risks could provide the bank with a competitive advantage if done in a timely manner (RD). The direction of these measures will determine whether the risk would have a positive effect or a negative effect on the business and what it does.

6.2.1 The taxonomy of risks within Bank A

The management of Bank A highlights that, once the likelihood and impact of a risk on the bank's financial performance has been identified, it is important for the bank to then categorise this within their existing risk landscape. The bank's risk landscape identifies the bank's emerging and principal risk at a point in time. In the instance of an uncertain event the risk landscape is reviewed to record the impact of such an event of the bank's risk landscape. According to the management of bank A this is exercise is often performed on a monthly basis.

To enable a better understanding of how Bank A categorises its risks, this study obtained some information on Bank A's emerging and principal risks from the bank's annual reports. At the time the interview was conducted, the management of Bank A identified their emerging risks as risks associated with changes in the regulations, risks relating to geopolitical events, cybercrime, and the macroeconomic environment (e.g. Brexit), as well as the bank's exposure to competition (RD, HoRDRG). The principal risks faced by Bank A were obtained from the bank's annual report and are summarised below.

6.2.1.1 Credit risks

Credit risk is referred to as the loss resulting from a borrower or counterparty failing to pay amounts due or default in loan payments. Bank 'A' provides residential and buy-to-let mortgages and credit cards to customers across the UK and there is the risk that any adverse changes in the macro-economic environment, such as rising interest rates and/or the credit quality or behaviour of borrowers results in additional defaults and impairment losses, thereby reducing profitability. Additionally, wholesale exposures arise through the liquid asset portfolio and the use of derivative instruments to manage interest rate risk.

6.2.1.2 Market risks

Market risks is the risk of loss arising from unfavourable market movements in interest rates, exchange rates and other prices of securities and instruments which leads to a reduction in earnings or value of the firm's assets. Interest rate risk in the banking book is the only material category of market risk for Bank 'A'.

6.2.1.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, people, processes, and/or from external events, including issues around legal risk. This includes the risk that systems and processes relating to technology, audit, and other support systems may malfunction or break down. The management of third-party relationships, cybercrime and information security remains a key focus for Bank A's operational risk exposures.

6.2.1.4 Conduct and compliance risk

Conduct and compliance risk is defined as the risk that our operating model, culture or actions result in unfair outcomes for customers. This could result in regulatory sanction, material financial loss or reputational damage if we fail to design and implement effective operational processes, systems and controls which maintain compliance with all applicable regulatory requirements.

6.2.1.5 Strategic and Financial risk

Strategic and financial risk covers the strategic risk, the risk of significant loss or damage arising from business decisions that impact the long-term interests of stakeholders or from an inability to adapt to external developments and financial risk which is focused on concentration risk. Credit concentration risk is managed for retail and wholesale credit exposures at portfolio, product and counterparty levels. Financial performance can be impacted by adverse changes in customer behaviour.

6.2.1.6 Balance sheet and prudential regulation risks

These are the risks which cover a number of categories of risk which affect the manner in which the group can support its customers in a safe and sound manner. The risks include the need to accommodate liability maturities and withdrawals, fund asset growth and otherwise meet contractual obligations to make payments as they fall due (liquidity risk), the inability to raise and maintain sufficient funding in quality and quantity to support the delivery of the business plan (funding risk) and the risk that the Group has a sub-optimal amount or quality of capital or that capital is deployed inefficiently across the group (capital risk).

As explained earlier, once the risks are identified, they are then categorised within the bank's risk landscape and the previous risk landscape is updated to reflect the bank's current risk profile. Table 6-1 below is an example of Bank A's risk landscape adapted from the bank's annual report.

Table 6-1 Bank A's risk landscape

Credit Risk		**Market risk**	**Operational risk**	**Other Operational Risk**		**Conduct risk & compliance**		**Strategy & business risk**	**Financial risk**	**Liquidity risk**	**Capital risk**
Retail	Wholesale					Conduct	Compliance				
Mortgage	Wholesale credit risk	Foreign exchange risk	Operational risk framework	Fund management	People	Product design and governance	Upstream regulation	Macro-economic risk	Interest rate risk in the banking book	Retail Funding risk	Capital Sufficiency
Personal Current Account	Large Exposures		Corporate Risks	Legal Risk	Process	Unfair Contract Terms	Regulatory Reporting	Transformation Risk	Retail Concentration Risk	Off-balance sheet Liquidity Risk	Capital Efficiency
			Operational Risk Losses	Business Disruption	Systems	Sales Practices, Advice & Culture	Critical & Important Outsourcing	Change Risk	Secured Wholesale Debt	Marketable Asset Risk	
				Information Security	Payment & Settlement Risk	Sales Incentives & Reward	Senior Persons Regime	Reputation risk	Pricing	Non-Marketable Asset Risk	
				Information Management	Physical Security & Safe Environment	Quality and Competence	Privacy and Data Protection	Competition Environment	Model Risk	Franchise Viability Risk	
				Financial Crima	Non-financial Counterparty Risk	Post-sale Administration & Transaction handling	Sourcebooks		Wholesale Credit Concentration Risk	Wholesale Funding Risk	
						Partner Conduct	Market Compliance		Under-estimation of Credit Risk	Funding Concentration Risk	
						Vulnerable Customers & Treating Customers Fairly				Intra-day Liquidity Risk	

Source: Adapted from Bank As' annual report

6.3 The user's perspective on the definition of risk

In addition to the investigation of management's view on the definition of risk, this section explores the definition of risk from the perspectives of the users of risk disclosures provided by Bank A. This would allow for a detailed comparison of the different views expressed by participants around the concept of risk. The main user groups include UK regulators, institutional investors and equity research analysts.

6.3.1 The definition of risk from the perspective of the regulator

When asked to define risk, most of the regulators define risk in consideration of what risk means for management or the companies they regulate. Even though the regulator is responsible for requiring banks to disclose risk information within certain risk categories, the ultimate decision for the identification and management of risk lies with management. R3 refers to risk as *"the potential for the expected outcome, strategy or objective of the bank not to come into place the way it's intended"*. It is believed that very often it is easier for management to account for and make provisions for the risks that are expected to happen or to have an impact on the business than to account for those that are unexpected. Therefore, the risks often disclosed within the bank's public disclosures are those that the banks have some level of expectation of its occurrence. However, there are the unexpected risks which banks have to make provisions for.

R1 refers to risk as "*things that happen to make your plan or objectives not to happen one way or another*". His definition of risk focuses on the negative effects of risk and is associated with the possibility of not achieving the intended or set business objective, plan, or strategy.

R1 adds that risk is "*often any uncertainty in the sense that it is often outside managements control"*. However, there is the risk that management is aware of and can take measures to reduce them and sometimes remove them with the help of a lot of history and experience (R1). R1, therefore, highlights three categories of risk;

> ***"Risks you are aware of and can control***
>
> *There are the risks that management are aware of and can take measures to mitigate them and sometimes remove them.*
>
> ***Risks you are aware of, but you can't control***
>
> *There are also the risks that you know of but there is not a lot you can do about them.*

Risks that you have no awareness of but can occur

There are the risks that you haven't even thought of that occur surprisingly. And these are usually the worst to handle. It's difficult to disclose things you don't know about. Some modern risks they don't have much experience of and it is very difficult for them to know what to do and indeed how to disclose". FM1 referred to these as unexpected losses.

R1 refers to both expected and unexpected risks. From his perspective, an expected risk is referred to as any uncertainty of an event that can either be controlled or not controlled. Whereas, unexpected risks are those events that management have no awareness of and therefore, cannot take any measures to control or reduce them. It is believed that the business's expected risks for which provisions are made, are easier to control as opposed to the unexpected risks.

The views of regulators from the prudential regulation were more geared towards risk as an unexpected loss. These regulators focus more on the capital adequacy of individual UK banks in ensuring that the banks hold enough capital to withstand any loss resulting from an economic stress or pressure. R5 highlights that as bank supervisors, they assess the bank's balance sheet to determine if there is a potential for the bank to make any losses and they want to be able to ensure that banks hold enough capital to survive through that loss or stress. R5 refers to unexpected losses associated with the bank's inability to withstand economic pressures. This could then include unexpected losses resulting from the bank's risk of default.

"…Well for me risk is the risk of default, and that is my primary interest, and that is everyone's interest so at the very top you have got the risk of default. That is where the shareholder's interest is, where the creditors' interest is, it is what the company's management is interested in. Because if the bank defaults, the managers will lose their job. There is the legal risk which is the risk of being sued if you didn't disclose something properly or you failed to disclose something. Credit risk comes from the risk of default, interest rate risk, market risk, these are all forms of default risk". R5

6.3.2 The definition of risk from the perspective of the institutional investor

The views of fund managers from institutional investment companies who have investments in Bank A were also sought. When asked about their views on the concept of risk and its definition, fund managers refer to risk as "*the possibility of an unexpected loss"* (FM2)*, and "anything that could potentially go against the objectives of the bank (i.e. business strategy, or to increase shareholder wealth and enhance financial performance)"* (FM1). The definition provided by FM2 is similar to the definition provided by R5 in section 6.3.1 above. FM2 refers more to the bank's risk of default and *"the possibility of the bank to avoid its default situations*" FM2. It is worth noting that both FM1 and FM2 work with credit risk. Credit risk is the risk resulting from a borrower failing to pay amounts due or default in loan payments[2]. This is reflected in their views expressed above. The views expressed by FM1 and FM2 are in line with the pre-modern view of risk which refers to risk as something bad (i.e. negative outcomes) (Ibrahim and Hussainey, 2019, p130).

FM3, a global banks analyst, refers to risk as "*any deviation from the bank's share price and anything that affects the business or has the potential to affect its share price*". He refers mainly to the impact of cyber risk, liquidity risk, capital risk and other risk types (i.e. strategic risk, regulatory risk) on investor returns and hence the bank's overall financial risk[3].

> *"In its simplest form, risk is the potential deviation from the share price. I'm here to pick good investments. Because if it is a risk that affects the business then it has the potential to affect the share price".* FM3

FM4, on the other hand, is the head of compliance of an investment firm responsible for investing the money of their clients and rendering services such as financial planning. FM4 highlights that when it comes to risk, even though their views on risk depends on their client's perspective on risk, risk is the *"risk of the investment itself and where it sits on the whole range of investments they have available".* This could range from derivatives and options which are considered high risks "*where you can invest more than the money you already have and your losses could be bigger than what you have invested*". This is still referring to the idea of risk as the possibility of unexpected losses. There are also investments in the equity of small companies which are mostly listed on the Alternative Investment Market (AIM) and other smaller markets around the world (FM4). FM4 finally refers to the low risk investments such as corporate bonds which are unlikely to result in any unexpected losses.

> *"We would categorise our clients into not just risk but also what the objective is as to whether they are looking for growth from the investment or the income from the investment and allowing that money to provide their income. Then we'll look into a portfolio of investments for them based on their risk attitudes and their objectives. And we'll look at that. And that doesn't mean to say that all the investments within their portfolio will have the same level of risk. Some may be higher, or some may be lower, but the average or the*

[2] This definition is from Bank A's definition for credit risks taken from its annual report.
[3] These risk types are elaborated in section 6.2.1.

overall composition will be then in line with what the client needs. So, for our firm the risk is tailored to the individual client" FM4.

6.3.3 The definition of risk from the perspective of an equity sell-side analyst

Another stream of literature refers to risk as the variations or fluctuations around a target value at a specific time horizon (Elshandidy, 2011, P.34). Abraham and Cox (2007) also use risk in three texts: risk as variation, risk as uncertainty and risk as an opportunity. Where variations could either have a positive or a negative effect on the business. This definition is similar to that provided by the International Financial Reporting Standard (IFRS 4 – Insurance Contracts), defining financial risk as the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices rate, credit rating, credit index or other variables.

Equity research analysts are often responsible for preparing research-related reports on a target company's financial performance, earnings growth, equity value and share price (Campbell and Slack, 2011). Their role is to provide recommendations on an entity's stock and offer a more detailed understanding of the entity's value creation process, strategy and business model (Nielsen, 2008). It is therefore believed that investors are the main users of financial analysts reported information.

In defining risk, most fund managers and equity research analysts refer to variations in the bank's risk profile, assets, asset holdings, and share prices (EA1, EA2, EA3, FM3). FM3 for example, refers to risk as default situations and *variations in the bank's risk profile including its balance sheet or its capital asset quality, liquidity, and earnings.* Volatility here is linked to the numerical aspects of the disclosures made as they can be measured. Equity research analysts refer to risk as variations in specific risk categories mainly credit risk, market risk and operational risk.

"*I will define risk as volatility in general".* EA1

"I will define risk as mainly credit risk for Bank 'A' as a bank, and some operational risk as well. And certainly, market risk, the changes in their holdings of say UK government bonds, changes in price can negatively affect their operations but again the key focus is on credit risk especially on these mortgages". EA2

"I think there are several different ways to think about risk. I mean we think about market risk, like what is happening more broadly with financial markets. We think about internal

risks, so for specific companies, how good are the risk management procedures, what kind of controls and check balances do they have" EA3.

According to EA3 operational risks are said to be qualitative in nature and it is often difficult for analysts to measure and determine any volatility or variation these risks may exhibit (EA3). Thus, it becomes difficult to estimate future volatility and related variations on these risk types. In the conversation with sell-side analysts, they pointed to the significance of operational risk as one of the biggest risks they focus on. This is because examples of such risk types including business malpractices and money laundering could have a huge impact on the business as a whole should they occur. EA4 refers to these operational risks as internal risks, such as risk relating to the effectiveness of the bank's risk management procedures, controls, check balances and compliance.

"…We measure risk in several different ways, some of it in terms of what I've described about internal risks and controls, these are qualitative and so we can't measure it. But in terms of comparing companies and their risk appetite, we look at their impairments for example. So, for a lender like 'Bank A' for example, we would look at impairments over average loan book. So what percentage of the loans they have written are 3 months in arrears and what percentage has been written off. Obviously, the higher that percentage is the more risk you can deduce that the company is taking. Therefore, that will make you think, do I want to invest in it and if I do want to invest in it then what do I want to pay for it. If its high risk, am I prepared to spend as much in terms of valuations to make that investment" EA4.

"…I think the biggest risks that we focus on are those to do with malpractices and money laundering. The bank's behaviour in the last 20 years, has been utterly disgraceful. I think it is the absence of morality amongst senior management, which was certainly not the case when I worked for the bank" EA6.

"For a bank, the primary ones that we focus on are the credit risk (we try to measure how that is going to go, at the moment it could be okay but clearly it is going to change) which is the key one, but then we also have the operational risk (malpractices, money laundering, fraud) and market risk (volatility and prices, moves and capital market movements and the gaps against that)" EA5.

It is evident that equity research analysts view risk in different ways. However, considering their role in making comparisons among firms and providing recommendations on the volatility of a firm's stock, they mainly focus on the quantifiable risks associated with the entity's risk of defaults and related impairment provisions (i.e. credits risks and market risks) in order to determine any variations and fluctuations. These variations could then be as a result of an unexpected loss or the potential for an unexpected loss in the future.

From a user's point of view, risk is always perceived as a default or a negative outcome. However, from management's point of view whereas risk is initially perceived as the occurrence of an event which has the potential to result in a negative outcome, there is also the potential for that event to result in a positive outcome (i.e. reward) and this is what drives management's incentive to take on risks and provide measures to control and mitigate its effects.

The findings also show that, whereas institutional investors refer to risk as unexpected losses associated with a deviation from the bank's share price and their investment in the bank's equity, financial analysts, on the other hand, refer to risk as mainly variations or fluctuation in the bank's risk profile, asset holdings, asset quality, liquidity position and earnings which ultimately affect the banks share price.

6.4 Summary

The concept of risk has developed over the years in prior literature from a pre-modern view of risk as any uncertainty of an event covering only the negative outcome to a modernist view which is the uncertainty of an event covering both the negative and positive outcomes. In an attempt to contribute to this stream of literature, this chapter provides insights into the different perspectives of preparers and information user groups on the concept of risk. In summary, participants refer to the uncertainty associated with both expected and unexpected events that could result in either a positive or a negative outcome. In addition to this, management highlights that their ability to control for the risk could determine the degree of the impact of the risk on the bank and the business. However, management posits that it is easier for companies to account for and make provisions for the risks that they are aware of, as opposed to those that are unexpected. The findings in chapter 6 also serve as a starting point to understand the perspectives of both preparers and users on risk disclosure quality as it offers insights into how they classify and view risk.

Chapter 7 below discusses users' expectations for risk disclosure quality through the understandings of stakeholder groups as well as management's understanding of these expectations. Drawing from the Gaps model of service quality, disclosure quality is measured by user-perceived disclosure quality. The model gives the researcher the opportunity to explore and identify potential causes for any discrepancies between users' expectations and management's understanding of these expectations which could impact the degree to which disclosures are designed and developed to reflect these user-perceived quality specifications.

Chapter 7: User expectations for risk disclosure quality and the management's response to these expectations

7.1 Introduction

Risk disclosures play a role in both the stewardship responsibilities of management and the decision-making process of key stakeholders. It is believed that risk disclosure quality can be assessed through the processes enacted by management and the understandings of the information users on the quality of the risk disclosures they receive. Prior studies identify a number of disclosure quality specifications such as; readability, informativeness, quantity and reporting style (Beattie *et al.,* 2004; Ryan, 2012; Kravet and Muslu, 2013; Abraham and Shrives 2014). However, very little is known about the current expectations for disclosure quality specifications from the understandings of the information users themselves with the exception of Solomon *et al.,* (2000) and Bean and Irvine (2015). Despite the role of management's involvement with the risk disclosure process and the impact of their disclosure decision choices, there is little research on how risk disclosures are designed and developed in order to convey risk information to its users.

This chapter is the beginning of a detailed analysis on the management of risk disclosure with particular focus on user expectations, as a key antecedent in the disclosure management process and the degree to which users' expectations are then incorporated within the risk disclosure management process. The chapter uses the Gaps Model as a lens to provide an understanding of users' expectations and perspectives on the current risk disclosures provided by Bank A, as well as management's understanding and response to these expectations in an attempt to identify the potential for a listening gap. In applying the Gaps Model of service quality, the concept of service will be reconceptualised as disclosure and customers as users of disclosure information throughout the rest of the study. These would be used interchangeably.

This chapter is therefore structured as follows. Section 7.2 discusses users' expectations for risk disclosure quality. Following on from this, section 7.3 provides some details on the different avenues used by management in obtaining information on users' expectations. Subsequently, section 7.4 discusses management's response to the user expectations highlighted in section 7.3. Finally, the chapter ends with a summary in section 7.5.

7.2 What are the users' expectations for risk disclosure quality?

Chapter 2 discusses the importance of disclosure quality for providing a better understanding of the business' portfolio of risks as well as some key factors of disclosure quality which facilitate informed financial and investment decision making (Solomon *et al.* 2000; ICAEW, 2011; Ryan, 2012; FRC, 2015,2017). For the purpose of this study, these factors are referred to as disclosure quality specifications (Parasuraman *et al.,* 1985). Prior literature identifies some of these disclosure quality specifications (i.e. risk disclosure informativeness, the quantity of risk information disclosed, and the provision of mandatory and voluntary risk-related disclosures) (Beattie *et al.,* 2004; Ryan, 2012; Kravet and Muslu, 2013; Abraham and Shrives 2014). Despite different attempts made by standard setters and academics to ensure good risk disclosure practice, little is known on users' expectations for quality risk disclosures and the degree to which these are incorporated in the management of risk disclosures.

In an attempt to contribute to this stream of literature, This study draws on the notion that customer-perceived quality service is mainly determined by customer expectations based on their experience with the particular service (Zeithaml *et al.,* 2016). This section, therefore, describes in more detail expectations for disclosure quality from the understandings of different user groups including equity analysts, institutional investors and regulators from both the FRC (Financial Reporting Council) and the PRA (Prudential Regulatory Authority). Each disclosure quality specification is discussed firstly by comparing similar or contrasting views among the different user groups and identifying this disclosure quality specification as either adequate or desired drawing on concepts from the Gaps model of service quality. The study then goes further to provide insights into management's understanding of users' views on these specifications and the gaps (Zeithaml *et al.*, 2002) and limitations faced by management when meeting them.

The responses gathered from user participants on their expectations for risk disclosure quality falls within two main categories. The first category focuses on the expectations relating to the actual content of the disclosures provided and includes perceptions of disclosure quality specifications relating to informativeness, clarity and comprehensiveness, linking narratives to financial statement items, access to regulatory reporting, the volume of information provided and the balance between mandatory and voluntary information. The second category then focuses on information reliability. This section discusses each disclosure quality specification in the light of users' expectations and management's response to them. The researcher obtained responses from management concerning to the disclosure quality specifications mainly discussed by user participants.

7.2.1 Content of the disclosures provided

7.2.1.1 The provision of informed and specific risk disclosures

Majority of user participants (EA4, EA5, EA3, R3, R5) had expectations for a more informative and specific disclosure of risk, especially in linking the risks that the banks identify in their disclosures to the banks business model and strategy. This is in line with evidence from prior literature on the quality of risk disclosures (i.e. Linsley and Shrives, 2006; Linsley, 2011 and Kravet and Muslu, 2013). These studies find that companies provide a large amount of risk disclosure which are generic rather than specific. According to research undertaken by the FRC, their findings suggest that investors are of the view that understanding the company's principal risks and how this links back to the company's business strategy and model is important for their investment decisions (FRC, 2017). Nevertheless, most users expressed the view that the disclosures are often uninformative in the sense that they tend to be generic and boiler plated. In relation to this, a study conducted by Abraham and Shrives (2014) shows that companies provide larger amounts of risk disclosure that is generic rather than specific and therefore the substance of the risk discussed is less informative and hence remains the same over time. This study contributes to the existing literature by providing a discussion on the disclosure quality specifications from the understanding and perspective of different user groups and management response to these as discussed in section 7.3 below.

Equity research analysts for instance, highlight that the non-financial risk disclosures provided often include generic definitions of what the risks are instead of what the risks identified mean for the business and how they can link that back to the banks business strategy and model. This could be as a result of the fact that equity research analysts are more experienced and trained to know the basics and foundations of what these risks mean. Therefore, information on the definition of risk for example, would be considered uninformative. According to Flostrand and Strom (2006), financial analysts find risk-related disclosures as important when such information is value relevant. In that, it is forward-looking and informative. Even though the pillar 3 disclosure requirements for instance, require banks to avoid disclosing information that does not communicate useful information to users, sell-side analysts highlight that most of the non-financial information (i.e. operational risk) provided, especially, at the back of the pillar disclosure 3 reports tend to be less useful in conveying informed and specific information. EA3 refer to these uninformed disclosures as *'fluffy stuff'*. However, EA4, posits that such disclosures made are helpful when putting together their analyst reports because it serves as useful material to put into a report in terms of framing their thought about a company.

As a result of this analysts highlight that they would only be prompted to go through the pillar 3 report if the profile of the bank's business changes. This is because they believe that most of the time, unless the business profile of the bank changes, their risks are not going to change very much and thus the risk information provided is more likely to be uninformative (EA4).

> *"I don't think anybody reads them. I mean, I go through the numbers sometimes like the loan exposures. But what I can't understand is what is that text which makes up the 60-page document. I have never read it. It is not interesting and neither is it comprehensive the things they write"* EA5.
>
> *"So, in the reports, they just give us the risk definitions of the non-financial risks which we already know, and we cannot model these"* EA3.
>
> *"...If you read through the reports from the bank its copy and paste from last year".* EA3
>
> *"I will say most of the risk disclosures are very generic, and a lot of them includes things we already have. Are they really specific to the company? I don't think so".* R7

The expectation for informed and specific risk disclosure can be classified as a desired expectation based on the findings gathered (Zeithaml *et al.,* 1993). Drawing from Parasuraman *et al.* (1988), desired expectation here refers to *"what users feel management should offer rather than would offer*". Unlike adequate expectations where a lower level of performance may be expected due to the fact that even though users hope to realise their service desires they recognise that this is not always possible, users have zero level of tolerance for desired expectations (Zeithaml *et al.,* 1993). The findings show that participants 'want' a higher level of performance in relation to the provision of informed risk-related disclosures and do not make sense as to why this quality might not be met. Thus, a zero-level of tolerance for uninformative risk-related disclosures. EA3, comments that "*it would be good if the banks disclose especially in the fluffy stuff on non-financial disclosures, like what is specific to Bank A in operational risk which is different to the other banks, which could be interesting, but I don't think they do that because that could expose their weakness"* EA3.

Participants responses were unanimous in relation to concerns regarding the informativeness of the risk disclosures provided. Participants also added that what matters to them is for the bank to identify how the risks they identify, especially those expressed in non-financial terms, affect the bank specifically and the strategic decisions taken by management to control and mitigate them. Also, the banks should be able to demonstrate good prioritisation of the risks in highlighting the key risks that specifically relate to their business.

The regulator (R5), when asked about their expectations for quality risk disclosure, highlights the importance of disclosing key risks and the prioritisation of risk, specifically on the firm's effective conveyance of its risk management, risk mitigation, as well as the risk mitigation approaches undertaken and how effective these have been. The regulator adds that more clarity about what the overall potential risk impact is and how it relates to their business and their business model as well as their strategy should be laid out and discussed (R3 and R5).

Prior studies support the view that, despite the continuous increase in the complexity of the Basel risk disclosure requirements for instance especially in the aftermath of the global financial crisis, their effectiveness in reflecting a bank's actual portfolio risk and in predicting their financial health is limited (Baule and Tallau, 2016). In line with this, the regulator (R3) highlights that, as part of their job in speaking to investors on their expectations on risk disclosures, they find also that investors often do not think that the principal risks companies have identified are going to be the principal risks that would impact the business. The regulator (R3) adds that even though the current risk-related disclosures provided are somewhat clear, it might be useful if UK banks highlight in their disclosures, not just what the risks are and how they are mitigating them, but also what the overall potential impact is and how it relates back to the bank's business model and their strategy. The findings above support the argument that investors need to be provided with informed and specific disclosures as this enhances their ability to identify the different risks faced by the firm and also assess and estimate the amount and timing of future cash flows (Abraham *et al*., 2012, Linsley and Shrives, 2005). It is believed that risk information users find risk disclosures that are specific and informative as incrementally valuable to their assessments of the bank's accounting information (Hope *et al.,* 2016).

7.2.1.2 Providing clarity and comprehensiveness

One of the principles of ensuring risk disclosure quality is to assess whether the disclosures are clear, comprehensive, and understandable (Bank for International Settlements, 2015). However, in line with prior studies (Abraham *et al.,* 2012), This study finds that there is still evidence that users are dissatisfied with the clarity of the disclosures they receive. Participants perceive the current risk disclosures provided by Bank A as not being as clear as they would like them to be, as a result of the complex nature of the banking system and the high standardization of the practice (EA2, EA1, R5). EA2 comments that some risks are often very difficult to quantify. Risk disclosures on operational risk for instance, which is one of the major risk banks face, are usually provided in the form of voluntary disclosures. This is because it is difficult for standard setters to provide standards on how these should be disclosed. These operational risks are often very difficult to quantify and most of the regulations around these are very abstract. However, when banks provide some form of transparency on these risk types, that are often outside the scope of what the regulators require, participants express the view that it increases their trust and perceptions on the soundness of the bank.

> *"There is currently very limited transparency as to how operational risks are reported, the standardisation of such risks and there are currently no clear-cut rules on how to disclose these. Most of the rules around operational risk disclosure are abstract in nature"* (FM2).

> *"Also, I think that when banks disclose information beyond the compulsory disclosures (voluntary disclosures), the clearer its communicated and the more I tend to trust the entity on the soundness of the business".* FM2

Following on from this, participants also mention that the size of the firm affects the quality of the disclosures they provide. Thus, smaller banks will have less quality risk disclosures as compared to bigger banks. According to FM1, 'Bank A' is a challenger bank and happens to be a smaller bank and therefore its disclosures lack some amount of clarity and can be less comprehensive, and this may be attributed to the fact that the bank does not have as many resources as the larger banks to ensure this.

Thirdly, participants expressed the view that it takes some amount of training for users to understand the risk disclosures provided in the pillar 3 disclosure report for example. This is attributed to the complex nature of a banks' operations and the risks they are exposed to. Financial analysts and institutional investors are usually skilled, and they undergo some form of training to understand the technical aspects of the risk disclosures, so as to make an analysis of the bank in focus.

> *"...I wouldn't consider them as being entirely clear. In many cases, the disclosures are pretty standardized, and it takes some experience and skill to understand these disclosures."* EA2

Interestingly, some equity analysts viewed their ability to comprehend the complex disclosures and to build through the unclarity of the disclosures provided as a competitive advantage for them against other equity research analysts. This is because it presents them with an opportunity to conclude on the target company's performance which may not have been explicitly provided within their disclosures.

“Not as comprehensive and clear as we would like but this is by design I think, and you have to know what you’re looking for and how to find it and then it is in there but they do their best to hide it and they don’t highlight it. Which is fine for us because for analysts that is our competitive advantage” (EA6, EA7).

Overall, participants expressed the view that the corporate disclosures are not as clear as they would like them to be. Participants highlighted the reason for this could be as a result of the fact that the person within the bank writing the disclosures and the person reading the disclosure within the bank tends to usually have a much fuller understanding of the process than an external person to the firm. Therefore, when they write the disclosures, it makes a lot of sense to them but when it is read by someone external to the bank, who has got very little information about the bank or the risks it faces, it tends to read as being more complex or it does not make as much sense to them as it does to those internal to the bank. Participants expressed a desired expectation for clarity and comprehensive risk disclosure provided within the bank’s risk disclosure reports (i.e. annual report and pillar 3 report). Even though participants expressed views that reflect the fact that risks are complex and therefore the design of the disclosures provided around these may lack some clarity, they highlight the importance of clarity in ensuring the usefulness of the risk disclosures and suggest that management should make every effort to provide risk disclosure that is clear and comprehensive.

7.2.1.3 Linking narratives on risks identified to the financial statements

Most users expressed the view that the linkage between the risk banks identify in the narratives and the numbers disclosed in their financial statements is key for providing insights into the bank’s risk profile. This is true, especially for those risks identified on a contextual basis on operational risks for instance, in both the annual reports and the pillar 3 disclosure reports. The regulator (R5) mentions that it is often challenging when making a coherent view of the risks the banks identify in their pillar 3 disclosure reports links back to the financial statements based on the financial information provided.

“...It makes it a challenge to see the forest from the tree (to see the bigger picture) so to speak.”. R5

Equity Analyst 3 highlights that being able to quantify and calculate risk is essential to explaining what the impact of that would have on the numbers and the bank's financial position. However, operational risk-related disclosures and other non-financial risks are often difficult to quantify, and it makes it difficult for firms to link the effects of these risks to the financial statements. In line with Power (2004, p30), even though the concept of operational risk may be appealing to users, "it characterizes new risk management in which the imperative is to make visible and manageable essentially *unknowable* and *incalculable* risks. Nevertheless, equity analysts mention that, in carrying out their role as analysts, being able to quantify risks identified in relation to the bank is key as it serves as evidence when making recommendations on the bank's performance. EA3 adds that it is often very fluffy to say there may be a risk of the payment system falling and a cyber-attack without actually showing evidence on how that relates to the bank's financial position and performance. Participants (EA3) suggest that it would be better if management reports on how a cyber-attack (non-financial risk) could result in a potential loss and amount lost by the bank to a cyber-attack and that sort of detail. Fund manager 1 seemed to agree that the non-financial disclosures can be helpful, however, they tend to be quite complex in terms of how they are measured and quantified.

> *"…From my experience with bank managers, some banks say it is impossible to estimate this, they don't quantify any provisions against conduct risks* for instance". FM1

Although guidelines such as the introduction of the strategic report by the FRC in 2013 was aimed at ensuring that firms provide a linkage between their business models, strategies risks and performance, within the disclosures they provide, the findings provide evidence that more needs to be done by companies to improve their narrative reporting by providing key links between the narratives and the numbers provided in their disclosures in the financial statements (FRC, 2017; FRC, 2018a; R7).

> *"What is interesting also I think if you read the narratives provided on their risk disclosures, you are looking at risks that are not disclosed in the financial statements and it makes you wonder why they are not there".* R7

There are also concerns about the linkages between the different numbers provided in the disclosures and not just linking the narratives to the numbers. For example, linkages between numeric assessments made on different risk types such as on credit risk and market risk, questions around how these numerical calculations and assessments are linked as well as linking the individual figures that form those concluding figures and how they would affect the overall performance of the bank.

The banking sector is highly risk-oriented and therefore their risk disclosures tend to be a lot more complex with detailed credit risk tables, different types of market risk exposures and related information. For this reason, the whole idea of having linkages is important, especially for their risk disclosures, especially in linking these disclosures back to the bank's business model (FM1). Participants, however, express the concern that this connection is not evident in the disclosures.

> *"…That connection being made is not evident...So why would Bank 1 with credit card business has certain types of credit risk tables versus a different business model, why would you get differences in the type of risk exposures."* R5

> *"…And you get some disclosures that change almost every quarter and you are presented with a bunch of different metrics which are potentially non-standard all adjusted numbers and are not reflective of the actual accounts to show you it is a fantastic business".* EA6

It is evident that the expectation for linking narratives on risks identified to the financial statements can be classified as a desired expectation. It is believed that once the disclosures are provided it should be possible for preparers to provide details on how this affects the bank's financial performance and position (Zeithaml *et al.,* 1993). In doing this it enhances clarity and comprehensiveness.

7.2.1.4 Access to regulatory reporting on company risk information

From the findings, it is evident that information on non-financial risks such as operational risks, for example, are often inadequate and questions around the bank's operational risks were more eminent. However, the findings show that disclosures relating to such risks are often provided to the regulators as part of the banks regulatory reporting requirements. It is believed that this information is provided internally through the bank's Internal Capital Adequacy Assessment Approach (ICAAP) and there is a document produced by the bank to the regulator on this. However, other users in the public domain such as analysts and investors do not have complete access to this information.

As part of their risk disclosure requirements, UK banks are required to provide disclosure under three main pillars; the pillar 1, the pillar 2 and the pillar 3 Basel requirements that relate to their capital adequacy. This is explained in more detail in chapter 3. As discussed earlier the Pillar 2A as stipulated in the Basel requirements requires firms to carry out an Internal Adequacy Assessment Process (ICAAP) which requires banks to assess, on an ongoing basis, the amounts, types, and distribution of capital that it considers adequate to cover the level and nature of the risks to which it is or might be exposed. These include disclosures on non-financial risks, such as operational risk disclosures and those that are subjective and less verifiable. However, users highlight a desire for more of such disclosures, especially in relation to how these are linked to the numbers and financial statements provided within their risk disclosure reports (i.e. annual report and pillar 3 disclosure report). According to the Bank of England (2018b), this assessment should cover the major sources of risks to the bank's ability to meet its liabilities as they fall due and should incorporate stress testing and scenario analysis. However, the issue is that most of the pillar 2 disclosures are made to the regulators and the public has no access to this information. The regulators carry out regular checks to monitor the bank's models established for different risk categories and to assess the appropriateness of the models applied in assessing these risks. This document is provided to the regulator and the regulator has the ultimate say when deciding which level of capital as per the bank's ICAAP is acceptable or not under pillar 2 to support the underlying risk exposures.

Users do acknowledge that such information could be commercially sensitive and are aware that these are made to the regulator and therefore emphasise the need to be able to trust that the regulator is ensuring that the bank holds adequate capital to render them stable and sound especially with those disclosures not made to the public (i.e. pillar 2 risk-related disclosures). In this situation, there seems to be an adequate expectation (Zeithaml *et al.,* 1993) for the regulatory disclosures. Even though there is a desire for such information, users acknowledge that this may not be possible in that providing such commercially sensitive information may be harmful to the business (Zeithaml *et al.*, 1993). Participants comment that *"even though banks and the regulators know about these disclosures, from a market perspective they can't tell us that, because of its sensitive nature" EA5.* There is an important concept of trust when it comes to assessing the non-financial risk of the bank. Participants highlight that when it comes to such disclosures they need to be able to trust that the regulator is on top of ensuring that the banks are safe and financially sound. The user's access to information, subject to regulatory reporting, is highly driven by management and the regulator's support to ensure the bank's confidentiality is maintained and at the same time protecting users' interests in ensuring that the banks are financially sound.

In relation to this, participants were also asked whether having access to this information will add any value to the work analysts do or in influencing investors investment decisions. Fund manager 3 posits that, not having access to this information will lead to an inefficiency in the market and hampers on their ability to access and anticipate properly the banks performance.

> *"I think what would also help in terms of the pillar 2, the pillar 2 is split between A and B, we have no insights as to what goes into the B requirements and I think that is perhaps wrong. The pillar 2B requirement might be included in the management buffer in terms of their capital positions, perhaps that B requirement is included in the management buffer*

> *and it is a driver of that, I still think having a regulatory capital add-on which isn't disclosed to the market will potentially lead to an inefficiency within the market or the risk that we can't assess the bank properly, which is wrong as a lender to these banks".* FM3

Fund manager 3 highlights that, even though they may not have access to the pillar 2 disclosures, they would like to know, in the instance where the pillar 2 requirements are to change, why the pillar 2 requirements are being adjusted or are changing and the causes for the change. This would offer them the opportunity to assess the risks properly. Nevertheless, users believe that this issue of non-disclosure is mainly driven by the regulator and not the bank itself.

> *"…I don't think that is necessarily driven by the banks not wanting to provide this information, I think it is a regulatory-driven thing and perhaps it is something perhaps it is something the regulators don't want the banks to disclose in case again it goes back to this concept of the market having too much information".* FM2

EA3 mentions that when it comes to the bank's operational risks for instance they are forced to assume figures in order to run their models. For this reason, having access to the breakdown of these regulatory disclosures would be informative. In response to these, the regulator highlights that "*the public and the regulator are two different audiences and therefore the information set required for these two categories would be in a sense different and should be different"* R4. R5 posits that information provided to the regulator in the ICAAP, for instance, is often commercially sensitive and there should be constraints in place to manage all confidential information.

On the other hand, R6 highlights even though it makes sense for management to withhold commercially sensitive information from the public, it is important for there to be some yardsticks of testing that information or a criterion of establishing what is commercially sensitive information other than self-proclamation by management, which often is the case.

> *"…when it comes to providing such information, management is prone to say that they concern about interest risks disclosures or disclosing some other type of risk which are quite reasonable when you look into it, but these are quite a blanket statement or is it a situation that if your peers are providing it then you're all providing it at the same time then that sensitivity issue is not in play then there need to be an exclusion of that"* R6.

7.2.1.5 The volume of the risk disclosures provided

Users also expressed a number of varying views on the level of performance in relation to the volume of the risk disclosures provided by the bank. Sell-side analysts for example highlight that the key information that they need when it comes to the pillar 3 risk disclosure report for example can be reduced to about 2 pages. However, this document tends to be about 50 to about 100 pages long. The pages for Bank A's 2016 pillar 3 risk disclosure report, for instance, were about 92 pages long. Week 4

> *"...Pillar 3 which will give me all the information that I require, and I believe more than all the information that all the analysts require in the market may be two pages. But most pillar 3 documents are about 60 to 70 pages and can I find that information? 9 times out of 10 I can't even get it."* EA 6.

Equity analysts rely on the information provided in the bank's annual reports and its pillar 3 disclosure reports for risk-related information. EA1 highlight that, as equity analysts, they tend to look for the same kind of information, especially in the pillar 3 risk disclosure reports every year, and this makes it easier for them to pick up any changes in the disclosures made on this information. However, the length of the reports makes it difficult for some equity analysts to go through the disclosures in detail in order to spot what might have changed in the reports in the current period from the previous years' disclosures, especially within their limited time frame. Annual reports for instance are 100s of pages long and it becomes difficult to look find key information in the reports. Participants posit that looking for information in the reports is like finding a '*needle in a haystack'*. As a result of this analysts highlight that most often, they would look for information they already know and have the experience on where to find these within the reports. In relation to the above findings, FM1 who used to be an equity analyst; highlights that sell-side analysts do not really look at the risks properly unless something goes wrong and there is a need to go back to the disclosures.

The researcher finds that sell-side analysts, who are more experienced in the role of analysing company information, are much more interested in certain key numbers when it comes to the pillar 3 risk disclosure report and they know what they are looking for when they pick this report. EA4 highlights that, *"for them as analysts its more important to assess any impairments on the bank's assets and the financial risk disclosures associated with these"*. There is less attention on the non-financial disclosures because of the difficulty associated with modelling these risks and relating them back to the numbers or the firm's financial statements as well as the firm's overall business model. EA6 highlights some of the key information they look out for when they pick up a risk disclosure report;

> *"…If I take the pillar 3, what do I want from the pillar 3 document? I want to know by country and by portfolio by key loan book, what is the total loan exposure, what the risk-weighted assets are against those loans, I want to know what their Non-performing loans (NPL) are and I want to know what the interest rates are, that is what I want. I can put that on one page or two pages and I can design them."* EA 6

He highlights that sell-side analysts are much more interested in the numbers on earnings and profit.

> *"…From a more general observation, because I used to be an equity analyst. I don't think equity analysts look at the risks in banks properly, I think they are much more driven by what the earning are going to be and what the profits are going to be the end of this year or two years in advance" FM1*

As mentioned earlier, it is perceived that sell-side analysts do not look at the risks properly unless something goes wrong and there is a need to go back to the disclosures. This could be attributed to the fact that because they are time-constrained and often find information in the rest of the report (i.e. non-financial risk disclosures) as uninformative they would only really look at the risk if something goes wrong or if there is a need to go back to the disclosures.

> *"…Many of their research I see and their analysis of the balance sheet, unless the bank is in trouble or there is some issue with the bank, then they'll just ignore it."* FM1

One sell-side analyst (EA4) gave a good example of an instance where she had to go back to the disclosures as a result of issues associated with a particular bank's similar to Bank 'A' in size. EA4 expressed a view from experience by giving an example with a bank she was following *"where the management of the bank had a change in strategy and they didn't properly assess the risks and they completely messed up the whole business. And I wrote a note to sell the share and I was the only analyst who did that, saying that what management is saying is not achievable because the risks are x, y and z. My colleague and I got to understand these risks by actually having a clear understanding of what the operations of the business are, i.e. what part of the business involves people, what the operations of the business are in making sure that the relationship between me as the collector and you as the client (i.e. operational risks). If you start switching people around it is going to mess up your collections which is pretty obvious but* *apparently, it wasn't obvious to the management team at the bank at the time. So those are risks you get to understand not by reading the reports really but by understanding the business and understanding what drives the industry. I guess to find out what drives the industry, you have to read industry papers."* EA4.

Analysts mention that most of these non-financial risk disclosures are not clear within the risk reports provided, and this could be attributed to the fact that management themselves may be facing some difficulties in grasping the complexities of the risk disclosures they are expected to provide and as an analyst the industry papers and other external sources become more useful in this case than the annual reports and pillar 3 report. Participants posit that despite the volume of the risk disclosures provided, the disclosures are not specific and detailed enough to enable users to understand the banks principal risks, especially when the bank undergoes an operational or change in business strategy.

Unlike sell-side analysts, most institutional investor participants on the other hand highlight that they do read all the information in the pillar 3 risk disclosure document in order to ensure that they do not miss anything that could cost them some money on their investment. And also, as established investment firms, they tend to have the resources including the time available to them in ensuring that they go through the disclosures.

> *"…I look at a lot of disclosures personally and I will take all of them and see how best I can use them to inform my decisions…I only focus on the credit risks and I tend to have time on my hand to go through all these disclosures. And we have other departments that look at the other types of risk."* FM1

As a sell-side equity research analyst, it is more of a competition and what matters is if they have the same information as other sell-side analysts within their scope of work. Unlike investors, equity researchers do not have money riding on their use of the risk disclosure reports they do not care as much if they do not get the disclosures.

> *"…For us at the end of the day we do not have money riding on that, but actually if you are an asset manager and you're running a pension scheme for example… then actually if Bank As' shares were to fall of the cliff and you felt you hadn't had the adequate disclosure, then that is a real problem. What worries me more is, it is not that we don't get the risk disclosure. I don't really care because it is a competition for us. As long as we get the same as everybody else I don't really care. Because it is only a game for EA5 and I, and as long as we all have the same data. Is it really important that I know what risks Bank A has got?*

not at all actually, I'm afraid to say. I would like to say its super important but it is not. Because I'm just fighting against somebody else". EA5

The other important factor that differentiates the perception of sell-side analysts and institutional investors in relation to the volume of risk disclosures received is the availability of resources such as time and people. EA1 highlights that they are often time-constrained when preparing their research related reports and making a financial recommendation on the evidence they have obtained from the targeted bank and therefore it becomes difficult going through all the disclosure reports from start to finish, especially to spot what might have changed in the disclosures from the previous disclosures.

On the other hand, FM1 highlights that as a fund manager of a big institutional investment firm they tend to have different teams available and responsible for different aspects of the bank's risk profile (e.g. credit risks, fixed income related risks). They have more time and resources to look at the risk disclosures provided by the bank in detail and to ensure they do not miss any vital information.

> *"...I think the risk disclosures are a bit too lengthy but then it depends on the number of disclosures an investor has to look at. I only focus on the credit risks and I tend to have time on my hand to go through all these disclosures. And we have other departments that look at the other types of risk. I think some investors don't have the recourses to allocate these separately to different departments and probably will feel that the disclosures are a bit too length".* FM1

From the findings, the individual personal needs as well as the existing conditions of financial analysts and institutional investors, for example, influences the degree to which they perceive a disclosure quality attribute and affect the varying degrees of expectations among these two participant groups (Zeithaml *et al.,* 1993).

Following on from this, participants also highlight that the voluminous amount of disclosures provided causes users to lose focus on what the key information in the disclosures are and this can cause them to focus on a downside that could constitute a small aspect of the bank's overall risk profile. This has the potential to wrongly drive the valuations made within the equity markets (FM2). FM2 mentions that the overload of financial information in the risk reports can be a negative and could ultimately cause the user to focus on one part of the risk profile of the bank which might include downwards trends in the bank's performance, but in reality, that part of the report may constitute a small part of the bank's overall performance and its impact would not dramatically change the banks risk profile. FM2 comments that;

> *"We'll be looking at markets where people have used or advice on turnover volume and trading activity, so it is quite easy to pick that negative section or a small piece of information and build a case on it…also these risk reports are like 100s of pages long which is a lot of information to take into account and actually what I want to know is what the most important information is".* FM2

On the other hand, the impact of that small downside could be huge and could constitute a dramatic change in the bank's performance, and this is where it becomes important for the user to be able to assess what the impact of the risks are from the disclosures and relate them back to the bank's business model, financial position and performance. Participant R1 highlights that even though it is often difficult to form the words around the non-financial disclosures for instance, and how they impact the business, it is important for banks to emphasise in their reports the impact of the risks they identify. This is important because a bank could disclose a risk as being very big when in actual sense it may be very small and that could shift the users focus to what is actually relevant and material.

When it comes to the non-financial risk-related disclosures, it becomes more difficult to assess its impact because these risks are difficult to quantify and classify. R1 argues that it is often difficult to form the words around these non-financial disclosures and for this reason a bank could easily disclose them as being very big when in actual sense the risk may very small or they may disclose them as very small when in actual sense they may be very big and may have a huge impact on the business. According to R1, this is a difficult task for banks to carry out and it affects the usefulness of the disclosures provided.

> *"There is other information included in for example litigation risks…and yes it tells me all the risks like there might be a risk of liable fines, but for me to actually understand the value of that is very difficult to actually know" FM2.*

Participants, therefore, suggest that it would be more useful for the bank managers if they would allow analysts and fund managers to identify a range of potential assumptions in the pillar 3 documents for these risk types. However, they do not believe management would ever allow this to happen.

In a nut shell even though some users acknowledge that the disclosures have improved in the sense that banks now provide a lot more information than they used to years ago, they emphasise the issue with information overload causing users to be distracted from what the key risks are and what is actually relevant in that period in time.

Even though some users may desire more informed information, it does not necessarily mean that all the information provided in the disclosure reports are informative and also from the findings informativeness is relative, depending on the user type and their level of experience. Therefore, when it comes to the volume of the disclosures it is evident that there are a few factors that affect this disclosure quality specification and users recognise that it may not always be possible to have the desired level of disclosure quality in terms of quantity.

7.2.1.6 The balance between mandatory and voluntary risk disclosures

A number of users expressed the desire for a balance between mandatory and voluntary risk disclosures within the reports that banks publish. Majority of participants express the unanimous view that having standardised disclosures are useful in that they tend to facilitate comparability. EA5 highlights that it is important at the contextual level to have similar standardised reports across the industry to aid comparison. This is because, if there are different parameters of reporting, then that in itself hampers analysis and it is hard to tell a story across the industry.

Even though participants acknowledge the importance of mandatory risk disclosures in improving consistency and comparability across banks, they highlight the issue with the disclosures often coming across as banks just ticking the boxes and therefore emphasise the importance of voluntary disclosure. EA5 suggests that banks should take the initiative and become more creative in balancing mandatory and voluntary disclosures by working with what they have. However, he adds that the banks have a tick boxing mindset and it will take some time for banks to come out if it. EA1 mentions that *"the current disclosures provided become more like a dictionary rather than a novel"*. In view of this, R1 views the voluntary disclosures as most relevant and emphasises that there is a real danger with ticking boxes in some of these things. In relation to the above, Kravet and Muslu (2013) caution against more mandatory disclosures in that, companies may technically comply with the regulations without providing useful and informed risk disclosures. Prior studies also raise concerns over the increase in regulations and over the quality of risk disclosure (Dobler, 2005; 2008; Dobler *et al.,* 2011).

One example R3 gave relates to disclosures on cyber risk. R3 mentioned that *"if disclosures on cyber risk were standardised, banks will provide the disclosures on these but it doesn't necessarily* *mean that those risks are significant or not significant cyber risk information and whether the board have been thinking about them".* However, if the disclosure of cyber risk was not mandated and a bank identifies cyber risk as one of its 5 or 6 key risks, then a user would know that cyber risk is really important to the business and can read what they have said about that and work out whether that is an issue or not or whether or not the user agrees with their approach. Therefore, if every bank provides a cyber risk disclosure it would enable the user to compare it across the industry, but then it would be difficult to assess whether or not that risk is important to the business (R3).

These findings support evidence from prior literature that a balance between mandatory and voluntary disclosure is important as the two forms of disclosure complement each other (Einhorn's, 2005; Bagnoli and Watts',2007 and Elshandidy et al., 2015). Gigler and Hemmer (2001) and Butler, Kraft and Weiss (2007) also find mandatory disclosure to be substantive for voluntary disclosure.

In line with findings from Solomon *et al.* (2000), the finding shows that most users, especially institutional investors, emphasise the importance of voluntary disclosures in providing context to the financial statements and serving as ways of coming up with emerging disclosures and issues of topical interests (FM4). FM4 emphasises that a lot of the time the risks that they worry about are risks that are emerging and the risks that are potentially big liabilities for the business. Thus, the poor management of such risks could result in a potentially huge impact on the business's performance. These risks very often tend to be specific to what the business does and are often provided in the form of voluntary disclosures, however, they are difficult to locate within the risk reports.

According to FM4, the process of ticking all of these boxes is an approach by management to limit the risk disclosures made on the bank and there is a perception that management has an incentive to hide information that has the potential to affect its reputation. For this reason, it is often difficult for users to identify the risk that could make a difference and that could surprise people or the risk which has not been dealt with before and which could be a problem for the bank. EA5 adds that: *"…when it comes to the risk disclosures, you have to know what you're looking for and how to find it and it is in there but the managers responsible for disclosing such information do their best to hide it and they do not highlight it".* This confirms the findings from Linsley (2011) that, risk narratives, for instance, are identifiable in the banks' disclosures but it is often hidden and it takes a lot of effort to piece out the overall risk narrative.

The regulators posit that the emerging risk disclosures, such as disclosures on climate risk and cyber risk, tend to be of temporary interests to preparers and the regulator has no current need to require banks to disclose them forever. Regulators highlight that most of these risks are still developing and it is not something that regulators can immediately impose regulations on because it is not clear what good quality disclosures on such risks should look like. Therefore, providing disclosures on these risks on a voluntary basis would help lead to better quality disclosures which might become mandatory in good course (R2).

According to R2, mandating disclosures is necessary when the regulators feel there is an ongoing need for such disclosures and it is clear what the relevant information is (R2). Therefore, management has the discretion when deciding the extent of disclosures around emerging risks and its impact on the bank's business model and performance. R2 mentions that, when they allow banks to voluntarily disclose risk-related information, the banks tend to provide some valuable results and these lead to disclosures that are quite a good read within the industry. Therefore, as regulators, they tend to encourage banks to voluntarily disclose these emerging risks rather than placing requirements on them.

R2 highlights that even though there is limited regulatory guidelines on how such risks should be disclosed (i.e. climate change risk-related disclosures for example) or what the quality of such disclosures should look like, they do strongly encourage firms to provide disclosures on these on a voluntary basis. However, there are a few task forces such as the Task Force for Climate Change related disclosures (TFCD) who provide some form of guidelines to bank managers on the disclosure of emerging risk types. These forces provide guidelines to management of how to approach and disclose disclosures that are not regulated or stipulated in the regulatory requirements around risk disclosures. R3 highlights that such task forces play a huge role in providing quality risk-related disclosures because they often provide a framework under which such disclosures could be provided. This provides the bank with the opportunity to disclose, in an ad-hoc manner, material information not necessarily guided by the regulations.

Despite the importance of providing ad-hoc, unstructured or voluntary risk-related disclosures, users highlight that they are often faced with the risk of misinterpretation and there is a lack of consistency within the disclosures when banks provide too much voluntary risk related disclosures and therefore they emphasise the importance of having a balance between mandatory and voluntary risk disclosures. FM1 mentions that, when management provides risk information on an issue which is emerging, it might provide a negative read and some users may perceive it as a profit warning or perhaps some kind of risk warning. For this reason, it is important to have a balance between mandatory and voluntary risk related disclosures. Furthermore, even though, it makes sense to have a structured disclosure, there are limitations with just ticking the boxes which may hamper on the clarity and understanding of the disclosures provided.

In a nutshell, most users unanimously express a desired expectation (Zeithaml *et al.,* 1993) and emphasise the importance of having a balance between providing mandated and voluntary risk disclosures as both approaches facilitate best practice and tend to provide a good and a cohesive read. However, users suggest that management should take the initiative to be more creative when providing their risk disclosures by working with what they have.

7.2.2 Information Reliability

Whereas participants perceive the risk disclosures as somewhat reliable, they argue that some of the big UK banks in the past 20 years have been subject to bad performance in relation to the manipulating and gaming the rules, especially with inadequate anti-money laundering procedures. These, therefore, resulted in large fines that investors and analysts knew nothing of beforehand. Thus, these were not evident in the disclosures. Participants emphasised that when it comes to risk disclosures and assessing its reliability, the history of the bank's performance in recent years becomes a key factor. FM1 mentions that the performance of such banks in the past has left them to remain sceptical on the disclosures provided by banks, most especially in recent times. Thus, the conduct of banks in the past and the lack of clarity in their risk disclosures prior to a crisis, a scandal or malpractice has influenced their underlying philosophy and attitude on how disclosures should be in order to regain their confidence. Zeithaml *et al.* (1993) refer to this as the personal service philosophy.

When asked about the performance of Bank 'A', FM1 highlight that unlike Bank 'A' which is mainly challenger bank and is based mainly in the UK, the larger banks which have multiple geographical conditions tend to be susceptible to such manipulations.

With regards to information reliability, users also acknowledge the fact that the forward-looking nature of risk makes it difficult for banks to accurately provide assurance of the information they provide on risk in the disclosures. For example, the risk for a 25-year mortgage based on quarterly or annual results (FM3). In the scenario given by FM3; *"if I want to invest for the medium and longer-term, I am not sure that is necessarily consistent with a bank reporting its overall risk profile on a quarterly basis or annual basis"*.

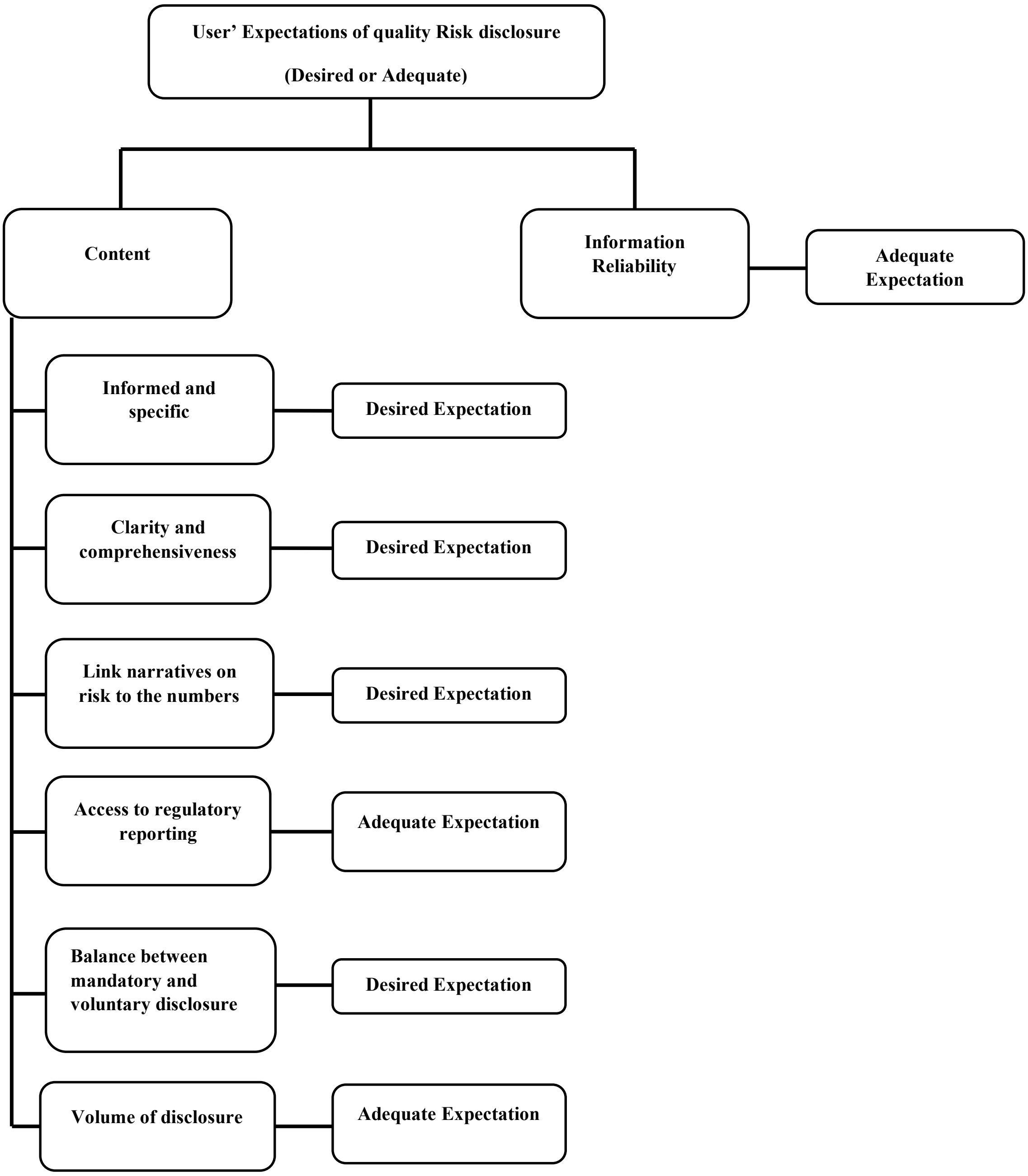
Regulator 3, highlights that when they deal with banks, managers are often relatively reticent to put so much information out there because they are worried that they are going to get to be held to account for it in the future. For example, when management declares in their disclosures that a particular risk has the likelihood to impact the bank by say 7% of x and if when it happens its impact is 12%, then management would be worried and concerned about a damage to their reputation. *"When we speak to investors they except the fact that because risks are forward-looking in nature and therefore the reliability of such information is not necessarily guaranteed"* R3.

Participants (EA3, EA6, EA7, R3) mention that it is a fast-moving world and because risks are often future oriented these risks tend to appear unexpectedly, and the banks have a limited period to understand the risks, respond to them and provide some form of assurance over them. In relation to this, Linsley (2011) find that even though the Basel Pillar 3 disclosure requirements require banks to disclose specific risk information, users should not focus solely on the pillar 3 disclosures because risk is fundamentally concerned with unknowable future events.

Most users, therefore, acknowledge that even though there is a desire for accurate and reliable information, the reliability of the risk-related information provided is not always guaranteed because of the forward-looking nature of risk (FM3, R3). Building on from Zeithaml *et al.,* (1993), this indicates that users tend to have an adequate expectation for the reliability and accuracy of the disclosures provided.

Figure 4 below summarises users' expectations on the quality of risk disclosures as discussed in this section as either desired or adequate expectations based on participants views and perceptions. The researcher identified a quality of risk disclosure as adequate expectations if user participants make sense as to why a particular quality might not be met and therefore has a minimum or lower tolerable expectation. On the other hand, if participants do not make sense as to why a particular quality might not be met, then the researcher assumes no minimum level of performance in relation to that particular disclosure quality specification. This is important as it is believed that user expectations are characterised by a range of levels within the risk disclosures provided and may have different tolerant levels (i.e. desired or adequate) for different disclosure quality specifications (Zeithaml *et al.,* 1993).

Figure 4 User-perceived expectations on the quality of risk disclosure



7.3 How does management obtain information on user expectations?

To implement risk disclosure practices effectively and efficiently, it is essential for top managers to understand users' expectations and perceptions with regard to the risk disclosures they provide (Zeithaml *et al.,* 2016). This is important because when it comes to disclosure every user may expect something different and there can be a variety of audiences whose different information needs are expected to be met and this can be very difficult from the preparers point of view. In the case of Bank 'A', the preparers have in place avenues for obtaining users views and concerns on the disclosures provided publicly to them. These avenues often include; investor days, analyst presentations, Annual General Meetings (AGMs), conference calls, Pensions and Governance Forum, and investor roadshows where management is given the opportunity to respond to users concerns on the content of the disclosures they have provided. According to Blankespoor (2018), once the disclosures have been provided, the first layer of management's response to users concerns about the disclosures they have provided is to listen to users' comments and questions on the disclosures provided. This relates to the investigation of the first gap of the model with the context of risk disclosure. Hence, the listening or the information gap.

This is the gap between user expectations and management perceptions or understandings of what users actually expect (Zeithaml *et al.,* 2016). The Gaps Model assumes that when management does not acquire accurate information about users' expectations it gives rise to a listening gap and managements' understanding of these expectations may be compromised. Thus, there will be a difference between users' expectations for the disclosures and managements' understandings and interpretations of these expectations. This in turn affects the usefulness of the disclosures provided.

The Investor Relations (IR) team is primarily responsible for managing the bank's relationship with its users on an ongoing basis by obtaining users views and understandings with respect to what users would want in relation to the different services provided by the bank, including their corporate disclosures. These interactions are outside the formal strategic activity of annual reported accounts and could range from formal to an informal conversation between the members of the IR team and the stakeholder.

> *"…They will be receiving a lot of information on the analysts' views on our stock and doing all the relationship management with them like understanding what they would want to be able to influence their views. So, there is a lot of close continuous work that goes on behind the scenes on that".* DRA.

The management of Bank 'A' obtains this information by interacting with users through investor days and analyst presentations, Annual General Meetings (AGMs), Pensions and Governance Forum, and investor roadshows. During these interactions, management is under pressure to convey significant information on the firm's risk performance and position and there could be costly consequences relating to a loss of stakeholder trust and confidence if the information is communicated poorly.

Nevertheless, this provides an opportunity for users to discuss the content of the disclosures provided on earnings, stock and the risks that affect these figures with management personnel and representatives. This also gives management an opportunity to gather information about users' expectations on risk-related information, their thoughts on the risk disclosures provided and the performance of the bank, and also to address any concerns they may have with the reports provided.

> *"…so, there would be investor days and they would normally come to discuss earnings and half-year annual announcements. In terms of pensions for instance, yes, normally there is engagement, but it will usually be through our pensions and governance forum. So, you would have representatives there, and some of them are independent, some of them are from the workplace pensions themselves and it is their job to act as some kind of trustee board because most pensions don't have trustees. And the only other opportunity people have for that direct interaction is if they happen to be shareholders as well and they can come along to AGM's etc. as it is an opportunity for people to do that".* RD

> "*…so, the day that we announce our results we have a big investors presentation and each member of the board and executive team will have a slide-pack filled with lots of information. So, we kind of try to guess what the investors are going to ask and then make sure we have got an answer".* HoRGRD

From preparers views, it appears they presume that user demands for risk disclosure quality and anything that investors would need would be embedded in the disclosure requirements as stipulated in the regulation. Therefore, to some extent, they rely on the regulatory disclosure requirements and will often use the regulations as a starting point which they believe would have come from investor feedback through consultations between the regulators and information users (i.e. investors and analysts).

"I think the regulations come from the capital market as well so if there is something that investors really wanted then it will probably end up being embedded in the regulations and we will then use that also as our starting point". HoRDRG

7.4 What is managements understanding of these expectations and what are the potential causes of a risk disclosure listening gap?

This section discusses perceptions gathered from management on their responses and understanding of the users' expectations for quality risk disclosures as discussed in 7.2 above. Zeithaml *et al.* (2016, p.94) highlight that when management with the authority and responsibility for setting priorities, do not fully understand users' expectations for disclosure, this may trigger a chain of bad decisions and suboptimal resource allocations which may result in the users perceiving the disclosure as poor quality. Public risk disclosures are ultimately essential for the economic decision-making of investors and other stakeholders. These decisions potentially end up affecting the bank's financial performance and it is therefore important for management to ensure that they provide quality risk disclosures. One way of achieving this is by obtaining an understanding of users' perceptions and expectations for the risk disclosures they provide and establish measures to address these or incorporate these within their risk disclosure process. From section 7.3, it is evident that management does have in place a number of avenues for communication with information users and obtaining their views on the public disclosures the bank provides.

In relation to incorporating user expectations within the public risk disclosures, the management of Bank A confirms that the main document geared towards addressing different user needs is the annual report within which information is structured to address different stakeholder needs. For this reason, efforts are made by regulatory authorities and management themselves to ensure that as part of the Corporate Governance disclosure requirements companies provide accounts that are Fair Balanced and Understandable (FBU). The pillar 3 disclosure report on the other hand, which provides a bit more technicalities on the banks' risk position is still in its development phase and at the moment is geared towards more experienced user groups.

The findings show that, even though Bank A's management showed some level of awareness and understanding of the expectations highlighted by users, they mention some disclosure issues or potential causes explaining why users' expectations may not be met.

7.4.1 Contents of the disclosures provided

7.4.1.1 Provision of informed and specific risk disclosures

Management points out that even though they acknowledge the importance of linking the narratives on non-financial risks to the numbers, it is often very difficult for them to quantify them in a meaningful way. ACM mentions that, a lot of their traditional disclosures on credit risk and market risk are mostly standardised and quantified and it allows them, as a bank, to provide financial information on the quality and the riskiness of the related asset for the bank. However, *"cyber risk and a lot of the operational risks generally can't be quantified in a meaningful way, so banks tend to provide these in the form of narrative disclosures"* ACM.

Management points to the fact that they do model these non-financial risks, into the figures to ensure that they do show its financial effect as part of their regulatory reporting requirements which is reported to the regulator as stipulated in the ICAAP disclosure requirements. However, the issue is most of the ICAAP disclosures made to the regulators are not visible to the public and other users have no access to this information. In view of this, users mention that the non-disclosure of information that could affect the informativeness of the disclosures is unhelpful.

Despite users concerns regarding the informativeness of the disclosures, management highlights the issue with providing commercially sensitive information and the risk of misinterpretation when it comes to giving some level of detail. ACM posits that when it comes to some operational risks, such as cyber risk, for example, providing too much information publicly could result in the bank being exposed to hackers.

> *"Cyber risk is a good example where you would not want to publicly disclose too much detail about what you're doing because you don't want to tell cyber hackers how your defences work but what you have to do is to explain to your stakeholders that you do have a cyber risk management process, policy and that you do have a team working on it. In these areas, you really have to rely on your narrative reporting because you can't and there is no way you can quantify what the risk is".* ACM

According to the risk reporting manager, it also becomes an issue of concern disclosing information that might be misconstrued by the public. This lies especially with the provision of ad-hoc and non-financial disclosures that are subject to the preparers judgements and are difficult to quantify and verify. The risk reporting manager adds that the risk of misinterpretation prevents management from elaborating on issues that are highly subjective any further in the public disclosures. Unless they can provide adequate evidence to support their claims.

She adds that as a team, they would not report anything that is inaccurate. However, if there was something that might be misconstrued, they would potentially factor in how that is going to look to the market when deciding what to disclose and what not to disclose. Thus, when deciding what to disclose and what not to disclose the probability for risk of misinterpretation could cause management to withhold information that might be misconstrued by the public. For instance, the HoRGRD explained;

> *"... we kind of start with right this is what we need to say but I think actually sometimes if the mortgage market and the economy is not going that well, it's kind of like well do we want to be saying that...also you don't want or your customer shouldn't really know about your mortgage underwriting. So, it is putting all that stuff into perspective and saying what are the things that we shouldn't be disclosing and its actually right to keep back and what are the things that we should be and make sure that we're right in the middle of doing the right thing".* HoRGRD

Following on from this, the auditors as part of their role, play a major part in ensuring that the information provided in the bank's annual reports are true and fair in that they reflect the truthful performance and position of the bank. However, some of the bank's risk exposures disclosed in the annual report and the bank's pillar 3 reports are not audited because there is no requirement to do so. The annual report contains a strategic report within it on the principal and emerging risks facing the bank's business performance and position and this risk report is not audited.

However, a lot of the pillar 3 information is usually taken from the audited accounts and so quite a lot of it might have been audited. Any additional information that is in the pillar 3 that is not in the annual report will not have been audited. These unaudited reports are often then reviewed by management (ACM). However, there is the risk of inadequate assurance placed on the information unaudited.

RD suggests that because of the level of subjectivity applied in the preparation of the risk disclosure reports, it is important for management to ensure the integrity of members of the banks risk divisions as well as those involved in the review process because disclosure is one of those tools that would eventually demonstrate their integrity at some point.

> *"...I'm all about transparency, absolutely all about transparency. Some people have indeed integrity, a key sense of justice, and if you are very lucky those people will end up*

in risk divisions. And disclosure for me is one of those very basic tools that would demonstrate those things" RD.

7.4.1.2 Providing clarity and comprehensiveness

When speaking to managers, even though management admits to the disclosures, especially the narratives, as being boiler plated, they believe that there is a need for there to be more clarity. ACM adds that for UK banks it will take a bit of a while for them to get their minds into the complexities of banking risks.

7.4.1.3 Access to regulatory reporting on company risk information

In relation to the information on the non-financial risk exposures disclosed to the regulator in the ICAAP, management stresses that this information is not disclosed publicly because they tend to be very sensitive in nature. However, management highlights that the information presented in the ICAAP and ILAAP would usually include some key information on how good or bad they are controlling their risks and a number of these disclosures are not made visible to the public. As a challenger bank, management adds that when it comes to such sensitive information, it only takes one of the big banks to be more open on that and the rest of the banks may realise there is really an advantage for them to share this information to the public. Once other banks provide disclosure on such sensitive matters, management might deem it as important to disclose information in this case also. It is believed that when users see other banks publicly disclosing information they perceive to have been previously reported the regulator as part of their pillar 2 requirements, it affects their expectations and users may start to demand these from the other banks. In this case, it then becomes a desired expectation.

Management also adds that when it comes to the non-financial disclosures, in general, the bank is facing some difficulties in quantifying some of these operational risks and as part of their capital adequacy calculations they try to model some of these risks. In extreme circumstances, they are able to demonstrate to the regulator that they have some kind of controls that will hopefully help them see that they do not have to put so much capital aside. Nonetheless, management highlights that they try, as much as possible to interact with other users on any concerns they may have regarding their capital adequacy (i.e. risk-weighted assets, market guidance and our strategy of the risks) during investor days, presentations, AGMs and interactions they may have with their investor relations departments and top management.

7.4.1.4 The volume of the risk disclosures provided

Despite the views from equity analysts on the volume of the disclosures, management believes that the increased length of the reports is a positive in that it gives users a broad range of information to make economic decisions. According to the HoRGDR, she does not think shareholders are being bombarded. Rather, she believes shareholders are being given all this extra information and this gives them a range of information to help them find what they are looking for.

Following on from this, the findings also show that, most users are unlikely to respond to consultations carried out by the regulators and they tend to be closed up about their investments until something happens and they are almost at the time of withdrawing their investments. Also, current risk disclosures focus on a range of different risk types and issues relating to different business events, therefore according to R3, it is difficult to get users to participate in consultations that are related to generic topics as they may be interested in a particular aspect of risk that is not covered.

> *"…there will be outreach events generally where you know views will be gathered, there might be roundtables etc. Now do people respond? That is a different question and the answer is very often it is difficult to get a response from a lot of those people or for them to understand the value of it adds to them. It is also quite difficult to get people to so you might have a particular situation or interest in but to then say in general I would be interested in or this information, you might be a pension trustee in a particular company and then be interested in that company's risk disclosure but you are unlikely to respond to the consultation about risk disclosure in general because you're focused on a particular aspect of risk".* R3

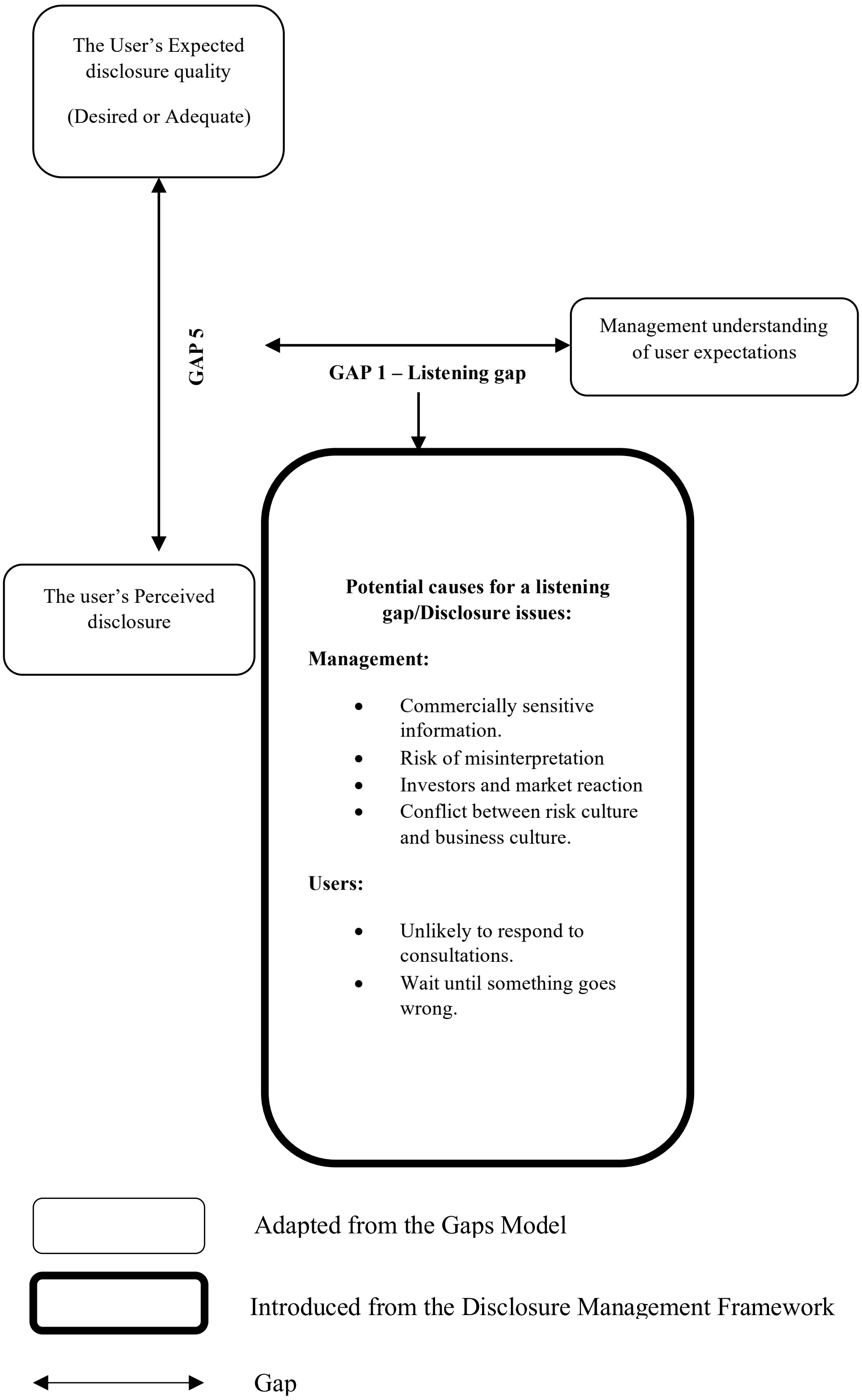
> *"…And in my experience, most people are very closed up about their pensions in particular which is quite sad, you know very sad and they don't start to look at anything until they are almost at retirement age and of course that is a little bit too late. This is because people have the view that its complex when really pensions are just another way of saving".* RD

The degree to which information users are involved in the risk disclosure process influences the degree to which their expectations would be heard and incorporated within the process. As much as managers have a role to play in ensuring that adequate disclosures are providers, users also have to engage by responding to consultations and discussing their concerns with providers and not wait until something goes wrong to get involved. The importance of user's (customers) involvement in the provision of risk disclosure (service) has been stressed in previous research in the service quality literature (Brown, 1989; Zeithaml *et al.,* 1993).

The above findings have discussed management's response to users' expectations for risk disclosure quality. Preparers appeared to understand the disclosure quality specifications highlighted by the user participants in the study. However, as highlighted in figure 5 below the findings show some potential causes for a listening gap (i.e. Gap 1) that may affect managements understanding of the user expectations discussed in section 7.2, which may in turn cause preparers to provide information based on what their preferences are rather than what the user expects. These potential causes may activate the preparers use of specific activities and procedures as well as influence their individual decisions when deciding whether to disclose or not to disclose a particular risk-related information. Drawing from Gibbins *et al.* (1990, p132) these potential causes are identified as disclosure issues that may have an important influence on the firm's overall disclosure output.

Figure 5 below also summaries some potential causes or disclosure issues controlled by the user's involvement in the risk reporting process. These include the lack of user responses to consultations organised by both management and the regulator and the act of waiting until something goes wrong before they find a need to go back to the disclosures. For quality risks disclosures both parties must be actively involved in the risk disclosure process. Drawing on the Gaps Model of Service quality the discrepancy between users' expectations for disclosure quality and their perceptions on the actual disclosures they get (i.e. Gap 5) depends on the size of the listening gap discussed in this section and the size of the design gap as discussed in chapter 8 below.

Figure 5 Findings relating to potential causes for a listening gap within the management of risk disclosures



7.5 Summary

To conclude, even though user participants express a desire for an access to the bank's regulatory reporting, reduction in the volume of the disclosures and reliability of the information provided, it is evident that they recognise these may not always be possible. However, users express a zero level of tolerance for a need to have informed, specific, clear and comprehensive risk disclosures. This further includes the need for a clear link between the narratives provided within the banks' disclosures and the numbers as well as a balance between the information required by the regulators and information voluntarily provided by the firm. From the findings, it was evident that management have in place avenues for obtaining information on users' expectations for risk disclosures and they have an awareness of what the users expect. However, management highlights a number of potential causes for a discrepancy between what the user expects and their understandings of these expectations. Thereby, leading to a listening gap.

Chapter 8: The management of designing and developing risk disclosures

8.1 Introduction

The purpose of this chapter is to provide a detailed analysis of the risk disclosure design and production process of Bank A, a UK listed Bank among the FTSE 250 organisations. Following on from the views expressed by management in response to users' expectations for risk disclosure, this chapter offers a deeper understanding on the risk disclosure process enacted by management to ensure that they meet external demands. The chapter explores the degree to which risk disclosures may be managed to incorporate user expectations in light of other disclosure antecedents. This falls within the scope of the disclosure design gap and it is where the researcher merges both the Gaps Model and the Disclosure Management Framework.

According to the Gaps Model, the disclosure designs established within management to translate managements' understandings of user expectations into disclosure quality specifications are an important aspect of disclosure quality. Even though the authors of the model refer to disclosure designs as the decision choices made by management in relation to how the disclosures should be presented, the Gaps Model of service quality provides little scope for examining these decision choices. For this reason, This study adopts concepts from the Disclosure Management Framework to provide an explanation on how the internal decision - making process is undertaken by management when translating their perceptions of users' expectations into disclosure quality specifications. This is explained in much detail in chapter 4.

Even though the users' expectations for risk disclosure is the main antecedent explored in this research, This study acknowledges that as part of the disclosure management process a number of other antecedents exist which potentially influence the overall quality of the bank's risk disclosures provided. Therefore, the process of designing and developing risk disclosures within the context of Bank A[4] is discussed in light of any antecedents highlighted by participants throughout the data collection and analysis.

The chapter begins in section 8.2 with an overview of the Bank A's profile including the individuals and groups involved in the bank's risk disclosure process. Section 8.3 offers insight in the design and development of the bank's risk disclosures. The chapter finally ends with a summary in Section 8.4.

[4] Pseudonym used to ensure anonymity of participants

8.2 Participant's profile

Bank 'A' is one of the UK based retail commercial banks, mostly dealing in deposits, mortgage lending and credit cards and other financial services such as customer investments, pensions, insurance and currency products and services. The bank provides customer services through different channels including; digital (online and mobile), intermediaries, contact centres and a national network of stores. The organisation's risk culture is customer-focused and its risk management strategy is to embark on a strategy that enables long term growth and profitability (Bank A's Annual report). Bank A recognises the importance of ensuring a successful relationship with its stakeholders. In relation to its risk decision making and disclosure, the directors of the bank ensure that there is both a current overall risk profile and a forecasted risk profile of the bank's risk exposures (Bank A's Annual report).

The design and production of risk disclosures within the management of Bank 'A' lies within the risk function, and the responsibilities for this are assigned to the following members: Chief Risk Officer (CRO), the Head of Risk Governance Reporting and Delivery (HoRGRD) and her team (i.e. risk reporting manager, risk reporting consultant, senior risk operating consultant, CRO business management and his personal assistants), the Chief Finance Officer and the finance team. These roles and the flow of information between the different groups and individuals are summarised in figure 6 and discussed in detail below.

As shown in figure 6 below, the bank uses a 'Three-Line of Defence' model which defines clear responsibilities and accountabilities for ensuring effective independent assurance activities over key business activities. This three-line of defence falls within the bank's risk management committee. The first-line management is primarily responsible for decisions associated with the identification of risk, measuring, monitoring and the controlling risks within their areas of accountability. First-line managers are required to establish effective controls in line with policy, to maintain appropriate risk management skills, practices and tools, and to act within Board-approved risk appetite parameters. As first-line managers, they are not directly involved in the overall reporting process, which represents 'the bigger picture for the banks' operations', however, they manage the risks identified and ensure that controls are put in place and then report their work and the related numbers to the second line managers. While carrying out these duties, line 1 managers may also have their own reporting done within their individual branches which are then collated and reported to line 2 management. In addition to this and as part of its internal reporting responsibilities, the second line management produces templates for first-line managers to comply with and the first-line managers are to report on a daily, weekly, and monthly basis, based on the template provided to second line managers. However, the main risk reporting responsibilities lie mainly with the second line managers.

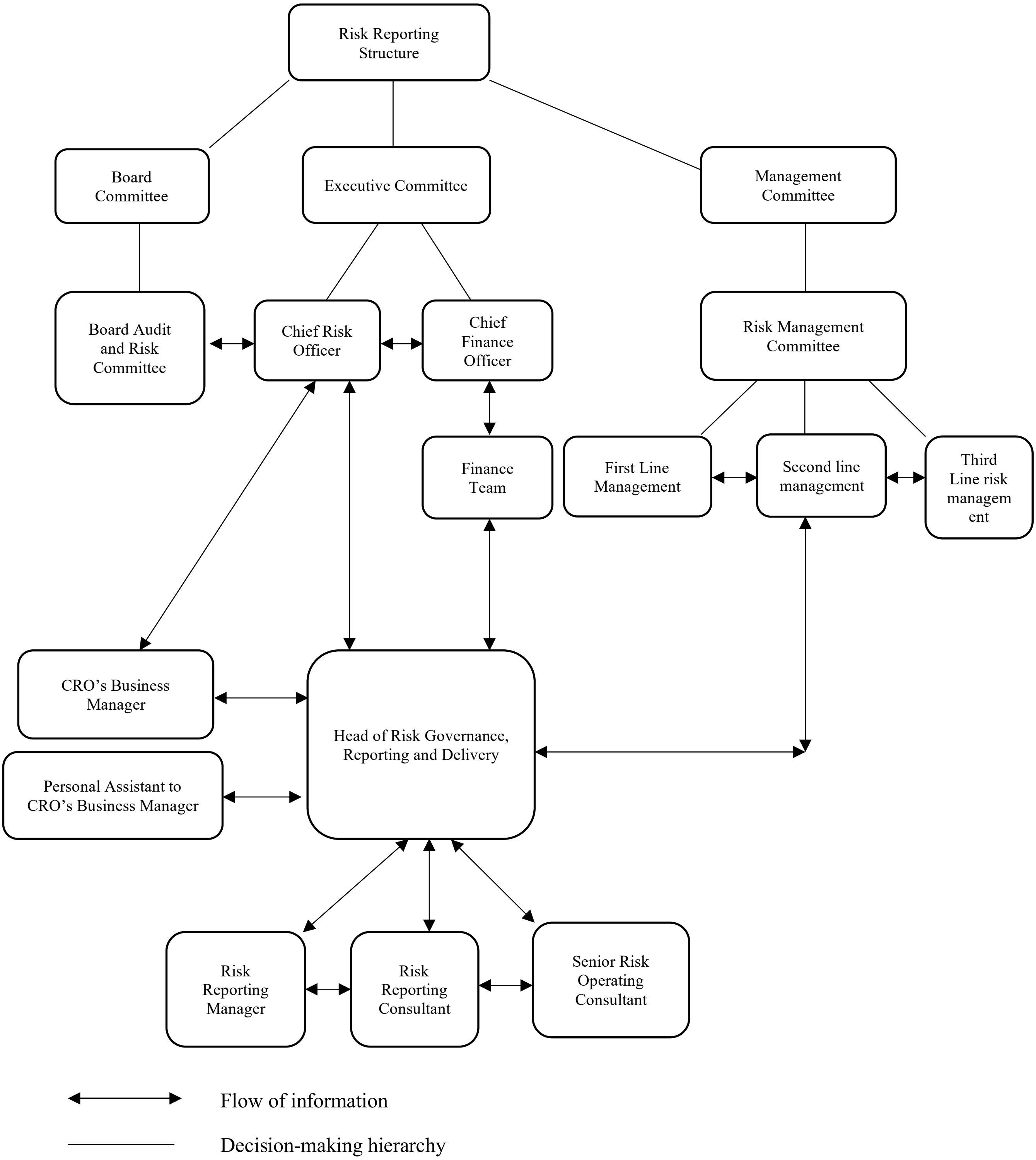
The second-line management (Risk function) within Bank A provides proactive advice and constructive challenge on the effectiveness of risk decisions taken by the first line managers. Line 2 management is responsible for the design and development of the risk management framework and for promoting the implementation of a strategic approach to risk management within Bank A. The second-line management, therefore, provides a view of the Group's risk profile while proposing and reporting against the risk appetite to the Board as well as overseeing the Group's internal stress testing framework and ensuring that a good working relationship is maintained with their regulators. In relation to the bank's risk landscape, which identifies the banks emerging and principal risk at a point in time, the second line managers aim to provide oversight and challenge as to how well the bank was managing and controlling its principal and emerging risks as highlighted in the bank's risk landscape. This is then reported internally to the Chief Risk Officer (CRO) and the board on a monthly basis, in addition to the reports that come from the first-line managers.

Within the second-line management in Bank A is a team responsible for risk governance, risk reporting, and delivery. The main responsibility for risk disclosure and reporting lies with this risk reporting team within the second line management of the risk function as shown in figure 6 below. Participants highlight that: "The main responsibility for the annual reports is the finance team and the investor relations, but the main responsibility for the risk disclosures within the annual reports lies with the risk function and the risk reporting function" ACM. So, when it comes to managing the risk disclosure provided with the annual report both the finance team and the risk reporting team work hand in hand to provide this report with the Chief Finance Officer (CFO) providing oversight.

Within the risk reporting team specifically, the Head of Risk Governance, Reporting, and Delivery (HoRGRD) within Bank 'A' has four people reporting directly to her, including; a risk manager, a risk consultant, the CROs business manager and the senior risk operations consultant. The risk reporting manager and risk reporting consultant, who both have an accountancy background, are responsible for dealing with the individual accounts and all the IFRS reporting disclosed in the annual reports working together with the finance team (led by the CFO). The risk reporting consultant is then responsible for pulling together all the board committee papers, to and from the board committees (i.e. risk management committee and the board risk committee), while consulting with them. The HoRGRD will then come at the top and review to make sure that was all in line. The team also includes a senior risk operations consultant that does not do any of the reporting, they deal with the recruitment of the risk function, training and development, budgets recruitment and the like (HoRGRD). As mentioned earlier, the second line manager's report internally mainly to both the CRO and the board monthly. The CRO's business manager serves as an intermediary between the CRO and the HoRGRD in delivering information on matters going on in the CRO's world, the CRO's major concerns and what the CRO believes the risk reporting team should take up to the board committee. The CRO's business manager deals more with the delivery side when it comes to risk and reports directly to the HoRGRD on everything the CRO deals with as well as any issues or concerns to risk the CRO would like to put across. The business manager then has three personal assistants to help in carrying out his tasks.

The third-line management (Internal Audit) within the three lines of defence then provides independent, objective assurance to improve operations. This line helps the Group achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (Annual report, 2016). Third-line management is responsible for providing a view on how the first-line and second-line work together to ensure that risks are identified, managed, controlled and reported accurately. These three lines of defence play a vital role in the bank's risk reporting process. However, the overall responsibility for risk reporting lies within the second line management. Figure 6 below summarises the different roles involved in Bank A's risk disclosure process and the flow of information between the different groups and individuals. The lines without arrows illustrate the decision-making hierarchy and the individual committees under which the senior executives who influence the risk disclosure process fall under.

Figure 6 The flow of risk information and reporting within Bank 'A'



8.3 The design and development of risk disclosures

The perspectives of management indicated that with the development of risk disclosures there is a big process that goes behind the decision of whether to disclose or not to disclose a particular risk-related information. This process involves a lot of engagement in which the roles of different individuals and groups are involved, not just in the production of the public report (e.g. an annual report), but also in the process of internal risk reporting where the actual decisions begin. The degree to which risk disclosure responsibilities are assigned and guided throughout this disclosure process has been referred to as the bank's internal disclosure structures (Gibbins *et al.,* 1990). It is argued that even though issues with disclosure implications offer the specific stimulus for corporate disclosure, the firm's disclosure structures are the general activating motivation for deciding what to disclose and what not to disclose as well as the identification of the extent of disclosure antecedents (Mayorga, 2013). From the findings, it is evident that whenever management is confronted with a disclosure issue such as issues relating to the introduction of a new regulation or guideline, or even a potential for an increased risk of misinterpretation, the disclosure structures and systems are the underlying mechanisms for the way these issues are addressed. The bank's disclosure position is then identified as the bank's internal preference for managing disclosure, which could either be geared towards an uncritical acceptance of rules and norms (i.e. ritualistic) or a propensity to seek firm-specific advantages or opportunities (i.e. opportunistic) developed as a result of the firms existing disclosure antecedents. This is illustrated in figure 7 below for Bank A's risk disclosure process.

This section discusses the risk disclosure process and design by looking at the different actions and roles involved as well as the degree to which responsibilities for risk disclosures are assigned and guided drawing from Gibbins *et al.* (1990)'s concept of disclosure structures. The degree to which the bank's disclosure structures are then shaped is determined by a number of disclosure antecedents (Gibbins *et al.,* 1990; Lantto, 2013; Johansen and Plenborg, 2018). The section discusses Bank A's disclosure antecedents in light of the Bank's response to disclosure issues and their existing structures for managing risk disclosure.

In line with prior literature (Gibbins *et al.*, 1990; Mayorga, 2013; Johansen and Plenborg, 2018), the findings provide evidence that managers' responses reflected the importance of adhering to accepted disclosure practices, including the continuous review of past disclosure reports, the review of existing and new regulatory disclosure requirements and guidelines as well as the monthly review of existing and new risk events and its impact on the bank's risk landscape. As part of this process, the study identifies a number of disclosure antecedents that influence how the risk reporting decisions within Bank A are made.

The corporate history and prior experience of a company is considered as highly fundamental, and it is one of the key tools in identifying and categorising risks in the disclosure management process (Gibbins *et al.,* 1990; Mayorga, 2013). The history of Bank A's risk reporting is reviewed on an annual basis and it is often used as a starting point through a gap analysis to access the bank's current risk position, and any changes in relation to recent risk-related events and issues are adjusted to the previous year's risk disclosures. This is reflected in the use of the bank's risk landscape as discussed in chapter 6. Management highlights that the bank's principal and emerging risks identified in the past forms the basis for reviewing and updating its risk landscape.

> *"We would always look back and say okay what did we do last year and we use that history as our starting point and do a gap analysis. So, we will say has there been anything that has happened during the year that would require us to change it, we would also look at how other banks have done things, we would look at the regulations as well"* HoRDRG.

> *"every quarter we would go through a process of looking at the risk landscape and going out to the business and saying to them what are the key risks in your area and then we gather that all together and we look at any new regulations going on at the moment as well. We have the principal risks which are very much prescribed and then we have our emerging risks where we just look at the landscape every quarter and that changes"* HoRDRG.

> *"Like everything in life, you need a little bit of history in order to step forward. Corporate history, corporate experience and corporate knowledge is fundamental"* RD.

As much as Bank A's corporate disclosure history plays an important role on the bank's risk disclosure process, as an internal antecedent, management highlights that the firm's regulatory responsibilities have had the biggest impact and the regulators are the driving force of standardising the bank's risk disclosures. And banks who fail to comply with the regulations face huge cost consequences.

> *"…there is who scares me most and its always the guys at the regulators, always the guys at the regulators."* RD.

Within Bank A, there is a settled difference between their incidents and breaches and this is fundamental to the way they would comply with the regulations. RD highlights that breach for

Bank A has to do with breaching the regulations and the law and incident is doing something more against the company's internal limits and policies. This technique of identifying the banks' breaches and incidents and ensuring that these are controlled have emerged because of the bank's obligation to address the regulators expectations. An example given by the Risk Director was an issue of a power outage where the bank would want their system to be out for not more than 30 minutes for a particular reason and the regulator may require the bank to recover within 2 hours in a situation like that. In this situation, if the bank's system is out for more than 30 minutes it becomes an incident internally and the bank would not need to tell the regulator because they have still got an hour and a half to meet the regulatory requirements. In this case, the bank is giving itself an hour and a half. But also, the bank wants to see how many of those 30 minutes of outages there are before it breaches the regulation. This is important because if there are internal reasons for why the bank is struggling to recover within that period of time, then there is clearly a root cause which the bank would have to clear out in order to prevent any outages. RD further posits that, as a bank, we have to look at our complaints, our previous breaches and incidents, and also our previous culture, and the present board members and if there was any turnover for some reason.

Even though the bank may provide within its disclosures its compliance to the regulation by recovering with the limit of 2 hours as imposed by the regulator, it has the discretion of deciding whether or not to disclose its incidents. However, the disclosure of information relating to the bank's failure to recover within their internal set limits could be informative to understanding any potential causes and the bank's established measures for mitigating against these in an attempt to sustain their compliance to the regulations.

Despite the increase in risk related disclosure requirements, it is evident that management has some amount of discretion in the provision of risk disclosures within their published reports, as the guidelines tend to be quite vague in some areas requiring some level of subjectivity. Therefore, banks have in place internal responsive systems to manage their compliance (Gibbins *et al.,* 1990). It is thus, argued that the structures enacted by management in their disclosure process is not just shaped by what the regulators require but most importantly management's response to these requirements.

Management highlighted that their disclosure decisions had become more sensitive to the regulator's expectation for disclosure as compared to other user groups. It appeared that the risk of not meeting the regulator's expectation for disclosure impacted the risk disclosure decisions taken by management and there is a continuous effort to ensure compliance. Thus, management's disclosure responses to the regulators' expectations are considered to a greater extent than the expectations of other information users. This is not to say that efforts are not made to meet other user expectation for quality risk disclosures. Management mentions that in addressing user expectation they often use the regulations as a starting point because they believe the regulations come from investor feedback through consultations between the regulators and information users (i.e. investors and analysts).

> *"I think the regulations come from the capital market as well so if there is something that investors really wanted then it will probably end up being embedded in the regulations and we will then use that also as our starting point when addressing user expectations". HoRDRG*

In addition, RD highlights that, even though they are mainly influenced by what the regulator wants and there is a greater incentive to reduce the bank's regulatory risk, there is always the expectations from other information users (e.g. investors) and management has an obligation to them and to act in a fair and truthful manner.

> *"Fundamentally for me, at the end of the day it is about, especially in my industry, we deal with huge sums of money in large amounts from also institutional investments and we forget that at the end of the day every single one of these investments is someone's pension or someone's ISA. Of course, we're a company and we have shareholders and we have employees to pay and all of those people are stakeholders and need to be remunerated in the right way. But when it comes down to it, these are people's lives and people's futures and we've got an obligation in an honest way to protect them and their savings"* RD.

As a result, RD emphasises the importance of integrity within the bank's risk function and within any business's risk function.

> *"Some people have indeed integrity a key sense of justice and if you're very lucky those people will end up in risk divisions. And disclosure for me is one of those very basic tools that would demonstrate the integrity of the bank and its management" RD.*

Reflecting on this, the integrity of the bank's risk function is identified as an internal disclosure antecedent impacting the way disclosures may be provided. The integrity of senior risk management personnel is particularly crucial considering the amount of influence they exert on their teams.

As highlighted earlier, the risk reporting process of Bank A comprises of two main underlying responsibilities for risk reporting. These include the internal risk reporting and the external risk reporting responsibilities. The roles and duties associated with each of these responsibilities within the risk disclosure function are assigned and guided throughout the bank's risk disclosure process. Management highlights that Bank A's internal risk disclosure process begins with an assessment of anything the bank is worried about within its operations and in the economy (e.g. interest rates spikes) as well as how that is going to affect its business model and products (e.g. mortgages, credit cards and savings) and the company as a whole. This may also include any changes in the regulatory requirements or an introduction of a new guideline proposed by agencies such as the Financial Reporting Council (FRC), the Task Force on Climate Change (TCFD), and the Enhanced Disclosure Task Force (EDTF).

The managers of Bank A believe that their risk disclosure decisions are often influenced by the uncertainties and complexities within the economy and the environment and therefore an assessment is often carried out to assess the impact of these uncertainties. The HoRDRG and her team together with the Finance team within Bank A are responsible for reviewing and assessing the impact of any economic uncertainty within the industry, and the introduction of a new regulation or guideline.

> *"So anytime something like that comes out from the TCFD for instance, my team and I together with the Finance team will have a look at it and establish whether there would be an impact on the corporate disclosures. A lot of the time because finance ultimately own the annual accounts they deal with that as well and they have an impact assessment to find if there is anything we need to be doing. In terms of a risk such as climate change risk, there might be something that might come out specifically on risk reporting and I would be involved. Our impact assessment would often include what the guidelines are, how it affects us, what do we currently disclose, what do we need to disclose, what do we not need to disclose, and that is the process that we would go through and then it will sit with whoever it was linked to"* HoRDRG.

This assessment is often carried out on a monthly basis and is reflected in the bank's risk landscape at the end of each quarter as shown in chapter 6, table 6-1. This assessment is then provided in the form of a document which is disclosed internally within management and the board. In addition to this, the risk function meets on a monthly basis to ensure that they are calling out the material risk-related issues and areas the bank is exposed to. Once the material issues are called out and highlighted the team goes through a process of discussing what these issues mean for the bank as a whole, what needs to be done moving forward, and what the bank needs to be aware of throughout the period and there are different roles and positions involved in this process.

Reflecting on their experience, this process involves a ritualistic behaviour (Gibbins *et al.,* 1990) carried out within the bank routinely and involves the prescribed norm of ensuring that events that may have risk disclosure implications are reviewed and monitored on a monthly basis.

As discussed above, the internal disclosure process within bank A initially emerges from the external antecedents associated with economic uncertainties and emergent regulatory requirements. The risks pertaining to these external antecedents are then categorised within the bank's risk landscape. Bank A's risk landscape is fundamental to the way risk is reported and managed. HoRDRG suggests that *"risk disclosures can only be improved as long as they keep changing with the bank's risk landscape and they are adapting and responding in line with any uncertainties in the market, the environment and the economy."*

> *"it is important that we don't just do the same things because the environment and the economy changes. With IFRS 9, the regulations changed after the financial crisis and when things happen accounting standards and reporting bodies and disclosure should change in reaction to what's happening in the environment and the world like Brexit for instance. And I think as long as that keeps happening its important because you're getting more transparency and disclosures, and this will help stop something like that happening again."* HoRDRG

The disclosures go through a process of identifying the probability and impact of each risk element within the bank's risk landscape and how each aspect of the bank's risk landscape (i.e. chapter 6, table 6-1) falls within or outside the bank's risk appetite. According to Bryce *et al.* (2019), it is important for management to obtain reliable and accurate information for any issue or event that may have a disclosure implication, regardless of whether such events are simply human errors or deliberate actions that could have a harmful impact on the company and its business. The risk landscape or framework is reviewed every quarter and it points out the emerging and principal areas of risk at a point in time. Thus, the risk landscape could change from time to time. The ritualistic behaviour of reviewing and assessing the Bank's risk landscape on a quarterly basis is the responsibility of the HoRDRG and her team. The propensity of the bank to adhere to this behaviour is driven by the need to update its risk landscape with new and principal risks so as to ensure that there are not any material risks being overlooked. This determines the scope of the bank's disclosure responsibilities.

Once the bank's risk landscape has been updated, it is reported to the CRO through her business manager and also to the management board (i.e. the bank's risk management committee and the board risk committee) as part of the bank's internal reporting responsibilities. The use of authority within Bank A to review, oversee and challenge how the risks are internally reported and classified as either principal or emerging is seen as essential to Bank A's risk reporting process.

As the CRO is ultimately responsible for risk management and risk disclosure, there is a monthly meeting that takes place among the HoRDRG, her team, the finance team and the CRO which enables the discussion of a constructed report called the *'CRO's update'.* The CRO's update is a report that calls out what the CRO thinks the team should be reporting in a given month. This report is developed based on discussion within the team and includes both the disclosure of the bank's principal and emerging risks. The bank's principal risks are often those stipulated in the regulatory requirements and often remain within the bank's risk landscape every time it is reviewed. These principal risks include the bank's credit risks, market risks, and operational risks. The bank's emerging risks on the other hand are the new types of risks reported to the risk function by different departments on existing issues within the bank's business model.

> *"As a bank, we try to make sure there is a distinction our principal and emerging risks. Some of these emerging risks may include changes in the macroeconomic environment (e.g. Brexit) and how that affects mortgages, new regulations, customer behaviour, supplier partnerships and how we deal with our third-party suppliers"* HoRDRG.

> *"We can look but at regulations that have been put out year on year and how that might impact what we do and all of that would be captured in our emerging risks and what we do this year might be quite different from what we did last year because different things would have happened throughout this year"* HoRDRG

Moreover, management note that a lot of subjectivity goes into the process of identifying potential risks, categorising them within the bank's landscape and potentially reviewing and classifying them as either principal and emerging risks.

All discussions and conclusions made among the HoRDRG, the finance team and the CRO are then reported to the management board (i.e. the bank's risk management committee and the board risk committee). These two committees (i.e. risk management committee and the board risk committee) are very similar in terms of risk management responsibilities even though they are both positioned at different levels of authorities. The risk management committee includes the CRO and the CFO and there is a lot of inter-communication between the CRO, the CFO and the team within the risk management committee. Most of the issues discussed here include the bank's current risk position and how that is going to affect the business' products (e.g. mortgages and savings) and the company as a whole. Any discussions between the members of the risk management committee are then reported back to the HoRDRG, her team and the Finance team for review, oversight and challenge. The board risk committee on the other hand includes the non-executive directors who are independent of the bank and therefore do not engage in the day to day management of the bank. However, they are involved in policy-making and planning exercises within the bank. They are also responsible for reviewing any output submitted to them by the CRO within her updated report and to give some feedback on the reports collated. According to the HoRGRD, there are usually different things that the risk reporting team would need approval for from either the risk management committee and the board risk committee depending on the kind of issue in question.

Consistent with Gibbins *et al.* (1990), Mayorga (2013) and Johansen and Plenborg (2018), the researcher believes that Bank A's propensity to either adhere to specific disclosure norms or to seek firm-specific advantages when deciding what to disclose or what not to disclose is affected by corporate politics. From the findings, it was evident that management's attitude towards disclosure reflected the attitudes of the CRO and the board committees when taking the lead in monitoring potential risk disclosure events. The evidence provided further clarification that even though the HoRGRD and her team within the line 2 management are responsible for reporting and delivering risk-related information, the actual disclosure responsibility for deciding what to disclose and what not to disclose lies mainly with the CRO and the Board committees.

Moving on from corporate politics, the availability and appropriateness of resources necessary for the provision of quality disclosures did not seem to be an issue from the perspectives of management. Management highlights that when it comes to their risk disclosures, all of the data collated and needed for their risk reports relate to the bank's existing portfolios and business activities. Thus, the resources needed to carry out their disclosures are often inbuilt and developed internally.

As part of the bank's external risk reporting responsibilities the bank is responsible for providing in its annual reports, Regulatory News Service, and the Basel pillar 3 report any risk-related issues that affect the bank in a given period and the measures taken to manage, mitigate and control these risks. These include compliance with accounting standards that relate to risks and the bank has a mandatory requirement to provide these disclosures each quarter, at half-year end and at the year-end. Management adds that, whenever there is a new publication of a disclosure requirement the risk reporting team would usually meet to discuss and go through the requirements to assess how this would affect their current disclosure position of the bank and if their current disclosures will have to be adjusted (HoRGRD). Thus, each quarter the risk reporting team and the finance team would meet to put the external risk disclosures together. These are then reviewed and approved by both the risk management committee and the board risk committee.

As soon as the key risks have been identified and management has decided how these key risks would be managed and mitigated, it is reported internally through the bank's internal risk reporting process. Within this internal risk reporting process management decides what to disclose and what not to disclose in the public domain considering the risk of providing commercially sensitive information and the risk of misinterpretation that might be subject to the disclosure or non-disclosure of such information. These findings provide evidence that management does have the discretion and the incentive to control information disclosed in the public domain even in the presence of regulatory requirements (Gibbins *et al.,* 1990; Mayorga, 2013).

Management highlights that as part of their external reporting process and in ensuring that the accounts are "Fair Balanced and Understandable", they would always perform an exercise to ensure that they provide an adequate background for everything they have made mention of in their disclosures. This is to ensure that anyone who has very little knowledge on banking and risk would be able to pick up the banks disclosures and understand it.

According to management, a lot of effort is put into this process of fostering understanding and they go through quite a big process to make sure that the numbers in the tables, for instance, are explained and clarified and that the narratives are free from unnecessary jargons.

The HoRGRD was asked by the interviewer what the challenges are in carrying out this task. The HoRGRD posits that it is usually quite a difficult task for them. However, in order to get around this, the team would usually get somebody who is not involved in the numbers and this individual would not read any of the risk disclosures until the last month when all the reports are collated and put together into the one document. The individual would then take the whole document and read it afresh from start to finish to assess their level of understanding. An example will be somebody who is maybe working in the culture department and has nothing to do with the bank' risk reporting (HoRGRD). In relation to this, there is an indication from the findings that, efforts in relation to providing risk disclosures, are made with users' needs in mind.

Once the reports are drafted and collated, the related accounts and reports are taken to the risk management committee for review and approval and later taken up to the board committee (i.e. CRO and CFO) for a second review and approval. Once the risk disclosures have been signed off by the CRO and the CFO and there is clarity of what exactly needs to be done, the disclosures are then taken back to the risk management committee to say here are the signed disclosures, they do not need further approval (HoRGRD). A member of the audit committee was then asked by the interviewer whether there are conflicts in deciding what should be approved and what should not be approved when it comes to the disclosures. According to the member of the audit committee at the bank, "*...Where there is usually a conflict and I don't think we've had one recently, is where we might think some information is commercially sensitive, and when the information is commercially sensitive and our competitors may use it against us. To be honest, that is quite rare that that happens as risk disclosures from banks are mostly standardized in terms of the type of information given, however, there is a lot of discussion around the content."* (ACM). Mayorga (2013) refers to such decisions as subjective disclosure decisions generally made by the board and board committees.

Once the risk disclosure reports are reviewed internally as part of the team's internal responsibility for risk reporting, they are then reviewed by an independent external auditor who will then provide a reasonable assurance on the truth and fairness of the disclosures made. However, even though the auditors are required to provide some form of assurance on the disclosures made in the annual report, the auditors are not required to provide an assurance on the risk disclosures provided in the other risk disclosure reports like the Basel pillar 3 reports. Therefore, the auditor's responsibility, in this case, will be to read the Basel pillar 3 report and to confirm that everything in that is consistent with the auditor's knowledge derived from reviewing the bank's financial statements (ACM).

As part of the bank's risk reporting process is its business and risk culture. Management highlights that the bank's risk appetite and risk reporting responsibilities play a vital role in expressing its overall business culture, which sits at the heart of its business model. Firstly, there is the bank's business culture which is aligned to its EBO, which sits at the heart of the bank's business model and emphasises accountability. The bank's EBO philosophy is to make "everyone better off" by delivering good value to our customers, treating colleagues well, making a positive contribution to society, building positive relationships with our partners and sustainable profits to our shareholders. Secondly, there is the bank's risk culture which is founded on a clear articulation of the bank's risk appetite, and the effectiveness of its governance and organisational structure.

According to management, this is key in making good risk disclosures. The HoRGRD highlights that the bank's risk culture is an underlying factor for delivering adequate risk disclosures and as a bank, if you have a strong risk culture you would care about finding out more about the risks within your risk appetite as well as managing and disclosing them. According to the Audit Committee Member, those within the bank responsible for the identification and management of the banks' risks will always ensure that these risks are taken in line with the bank's well-defined risk appetite and will only ever act within the bank's risk appetite. He highlights that the difficulty then lies with deciding what to disclose and what not to disclose in order to meet its business's culture of delivering good value to its customers and making them well aware of what the banks' risks are. However, there is the issue of filtering out information and providing customers with the information they actually need and that becomes a difficult task and affects the bank's business culture of providing quality delivery to its customers (ACM).

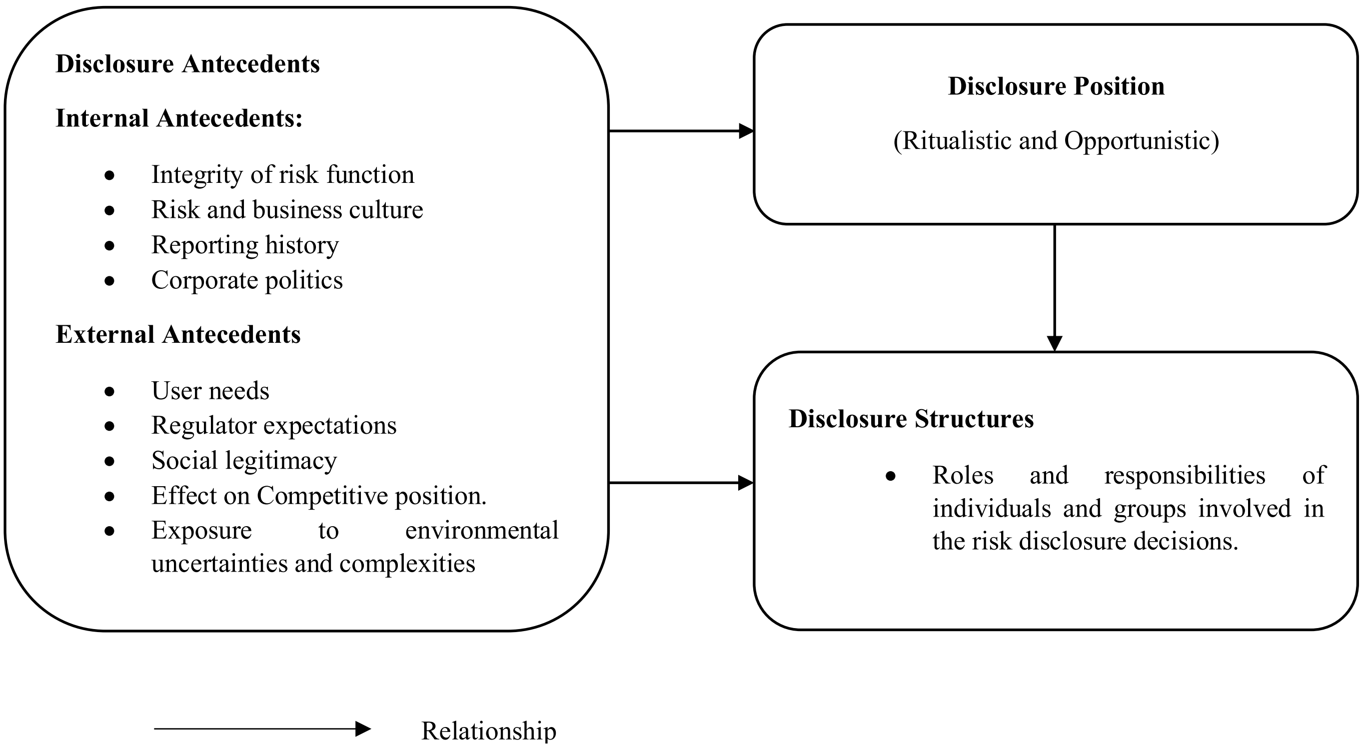
In relation to this, management highlights that a lot of work goes into a process of ensuring that they have control and disclose only the information that the user needs and avoid disclosing any information that might be misconstrued and misinterpreted.

Management highlights that, there is therefore an incentive for management to withhold any information that cannot be supported by sufficient evidence. For this reason, not every information that is reported internally is disclosed externally to the public. Nevertheless, HoRDRG highlights that they would want to be seen as being legitimate when it comes to their risk disclosures and they have an incentive to strive for a competitive edge by providing information to users above the minimum requirements mandated by the regulator, that could foster their trust (DRA). In this case, management exhibits an opportunistic behaviour in an attempt to control the information provided and at the same time foster trust and confidence through the effective management of the disclosure process (Gibbins *et al.,* 1990).

As part of this external reporting process, the bank is required to face off to their investors through investor presentations, Annual General Meetings (AGMs), and investor roadshows, conference calls, and Governance Forums once the disclosures are made public. These avenues give management the opportunity to respond to users concerns on the content of the disclosures they have provided and then to apply these in the disclosures they provide. However, the findings show that even though management is open to direct interactions with users to discuss disclosures, the information provided during these interactions are limited to what has been already provided in their disclosures and are aimed at providing clarifications to what has already been disclosed and not additional information.

Figure 7 below summarises the key antecedents identified within Bank A's risk disclosure process as both internal and external antecedents. Bank A's risk disclosure process above are discussed in light of these internal and external disclosure antecedents. Drawing from the Disclosure Management Framework, it is believed that, once disclosure antecedents are identified by management, the degree to which the bank's disclosure structures are then shaped to respond to these antecedents is determined by those disclosure antecedents (Gibbins *et al.,* 1990; Lantto, 2013; Johansen and Plenborg, 2018). The bank's disclosure position is then identified as the bank's internal preference for the way they may choose to respond which could either be geared towards an uncritical acceptance of rules and norms (i.e. ritualistic) or a propensity to seek firm-specific advantages or opportunities (i.e. opportunistic) developed as a result of the firms existing disclosure antecedents.

Figure 7 Key findings on the firm's risk disclosure structures and the presence of disclosure antecedents adapted from the Disclosure Management Framework



8.3.1 'Disclosure issues' influencing manager's risk disclosure process

Despite this internal structured approach within the bank, the ability to get across to all the bank (i.e. the different people involved, the different strategies and risks) in order to obtain the relevant information needed to represent the overall picture of the bank's risk position was identified by participants as a very difficult task. This is as a result of the bank's complex nature and the fact that these will have to go through a thorough review and approval process before being collated into one report. Participants refer to this as a huge task because the bank is required to put together a massive document that is written by a lot of different people, but it is meant to read and sound like it is just been written by one person. However, the ritualistic behaviour of consistent monthly reporting made internally helps to facilitate the collation of information from the different units within the risk function. According to DRA, the bank undertakes different corporate strategies to ensure that the reports are fair, balanced and understandable and that they read well. There is usually a team, who is not directly involved in the risk reporting process who will go through the disclosures from start to finish to assess the level of understanding. The example HRGDR gave was a department from culture. This is to ensure that a user who has limited knowledge of risk and the complexity of its concepts would be able to understand the risk report when read from start to finish. This shows that attempts are made by management to address participants perceptions on the view that; the reason for less clarity in the disclosures could be because those involved in putting the disclosures together usually have a much fuller understanding of the process than an external person to the firm and therefore when they write the disclosures it makes a lot of sense to them but when read by someone who has got little information about the bank or its risks, it reads as being more complex.

Management adds that there is also a team responsible for setting the tone and ensuring that there is a balance between formal and informal or "chatty" statements in the risk disclosures provided. Management believes that if a particular information is disclosed twice in different statements, one as being formal and the other informal, it would read differently and could be interpreted differently by the reader. Therefore, efforts are made within the bank to ensure that information that is to be reported formally, based on what management aims to put across, should be interpreted as a formal statement and the same should be for informal statements to reduce the risk of misinterpretation.

Moreover, a lot of work goes into the process to ensure that management has control over the information they disclose to the public by providing adequate evidence for every information

provided. This is to ensure that such information is not loosely interpreted by the user.
Management highlights that, there is therefore an incentive to withhold any information that cannot be supported by sufficient evidence and thus might be loosely interpreted if disclosed.
On the statutory reporting, there is the minimum stipulated regulatory requirement for banks to report, which is often boiler plated. However, there is no maximum stipulation and a number of companies can decide to either go above and beyond (DRA). DRA adds that:

> *"So, we can start with your boilerplate (i.e. this is what we have to disclose) and then what we think we should report and that could be quite different. And I think at 'Bank A' we were more at the end of the spectrum in terms of what do we have to report and also, we do not want to give away too much about our strategy…" DRA.*

According to DRA for every assertion of information provided in the banks' disclosures, there is a team that has to check back to the evidence before that could be signalled to go through. For this reason, DRA adds that whatever information the bank puts out to the public is well controlled and supported with sufficient evidence to ensure that as a bank they are not contradicting themselves. This is important because if a clever analyst is able to pick that information and realises a contradiction it could throw the bank's credibility '*under the water'*.

> *"… so we have to be very very careful that we produce that you only make objective statements that are verifiable and that those statements are carried through all the statements at different times and we report every quarter and so if we are updating our statements we need to make sure that if we've said something slightly different it can be evidenced that year on and so it requires a very very careful coordination, verification and evidential based disclosures to the market".* DRA

The Director of risk assurance highlights that there is also the challenge with being able to differentiate between the day to day risks that are really controlled by the bank and those risks that have the ability to threaten what the business does as well as the materiality levels of these risks and their impact on the business and the bank as a whole (DRA).

> *"…So, businesses take risks every single day and that is absolutely fine and there will be issues every single day. Risk control is to have a Laser-sharp focus on what worries us and so we are going to deep dive on that a bit more so we can give assurance to the board that this is not going to affect our strategy or cause the business or this is not going to cause us any reputational damage or financial loss…So having that knowledge and being able to*

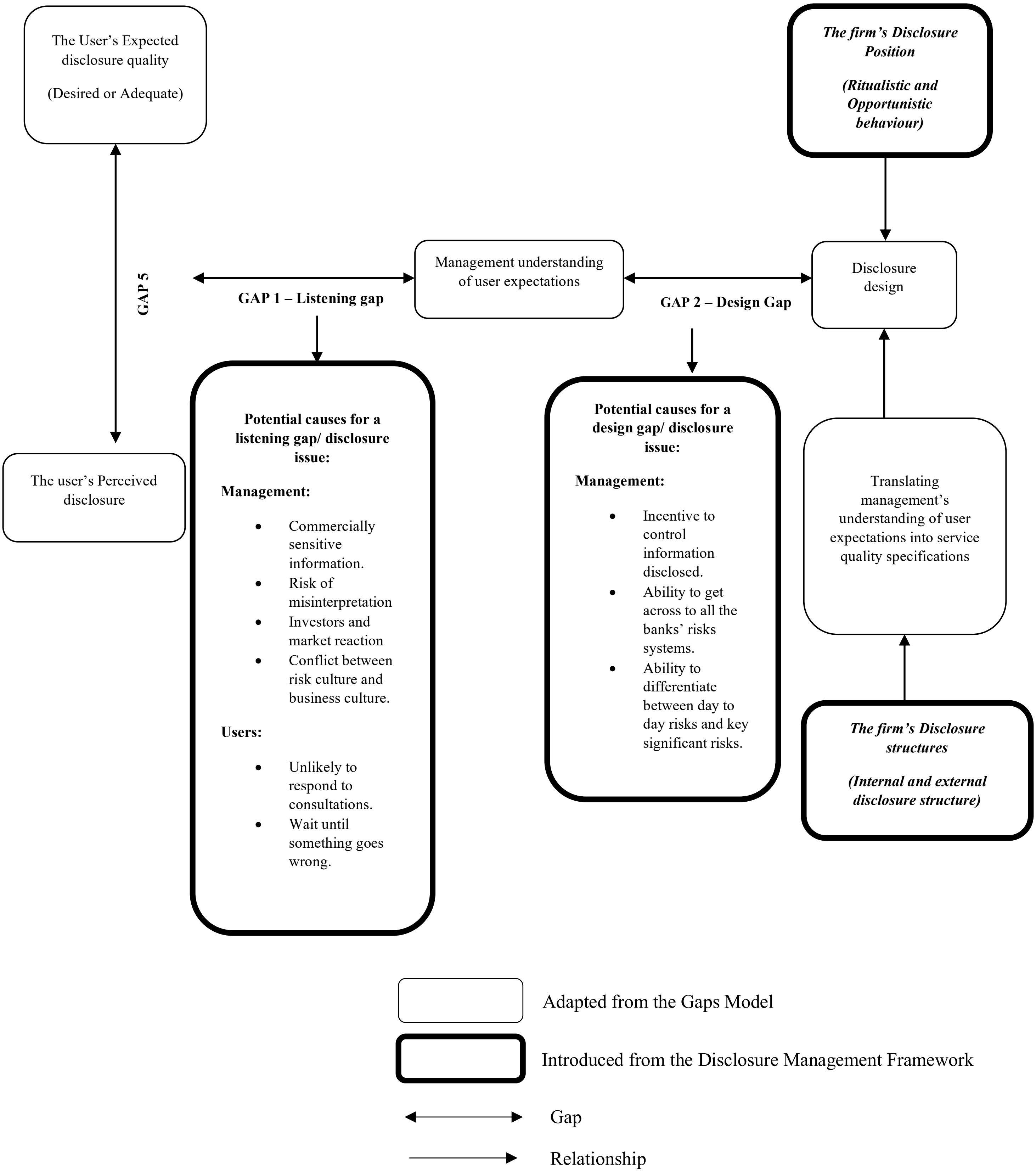
understand all the different aspects of the bank, being at the right place at the right time to challenge that and then pull that all together. It doesn't necessarily scare people that there is an issue with the envelopes in the mailroom today but there is a customer conduct issue that has the ability to threaten banks existence. Like PPI for example, you must be able to understand the materiality and all that falls behind that to be able to challenge it is vital…. But it also means that at times you struggle to keep your head above water to make sure you are doing a good job" DRA.

In summary, the findings from section 8.3 and 8.3.1 discusses the bank's disclosure process and design by looking at the different actions and roles involved, as well as the degree to which responsibilities for risk disclosures are assigned and guided. The findings show that even though management may have a structured approach and process in place to ensure adequate risk disclosures are provided in line with their objectives and the disclosure requirements, there are a few challenges which may be considered by management as a hindrance to facilitating risk disclosure quality as discussed in Section 8.3.1. These are identified as disclosure issues and are the challenges which could impact the degree to which management incorporates their understanding of users' expectations for disclosure quality into their risk disclosure process. Drawing from the Gaps model of service quality, Figure 8 below also shows these challenges as a potential cause for a discrepancy between management's understanding of the users' expectations and the degree to which risk disclosures are designed to reflect these expectations.

The analysis also identified management's preference for the way they may choose to respond to identified disclosure issues. This preference was identified as either ritualistic or opportunistic in supporting depending on the disclosure issue or case approached by management (Gibbins *et al,* 1990; Trabelsi *et al.,* 2004) Thus, the disclosure position is an average response to disclosure issues (Trabelsi *et al.,* 2004).

Figure 8 below identifies a number of disclosure issues as potential causes for both a listening gap (Gap 1) and a design gap (Gap 2). The potential causes for a listening gap identified below also influences the degree to which risk disclosures are designed to reflect the users' expectations. Management's response to these disclosure issues may either reflect a propensity to adhere to existing norms or a propensity to seek a firm-specific advantage as a result of an existing disclosure issue. Management's preference then determines the degree to which the bank's disclosure structures are shaped to respond to these disclosure issues (Gibbins *et al.,* 1990; Lantto, 2013; Johansen and Plenborg, 2018).

Figure 8 Findings relating to potential causes for a fulfilment gap (Gap 5)



8.4 Summary

This chapter provides detailed insights into the development and management of risk disclosures within the context of a UK listed bank (Bank A). Drawing on the perceptions and expectations of users for risk disclosure quality as well as management's response to these, the case study uses concepts from both the Disclosure Management Framework and the Gaps model of service quality. The management of risks disclosure was seen as a big part of banks' activities. In line with the Disclosure Management Framework, users' expectations for risk disclosure is a key antecedent to the disclosure management process. The findings suggest that even though users may have an expectation for a particular quality, they believed that some disclosure quality specifications may not always be possible and they would therefore have some level of tolerance for such qualities. Drawing on the Gaps Model of service quality as a guide to investigation management's response to users' expectations, the case study identifies a few potential causes for a discrepancy between users' expectations and management's understanding of these expectations in the first instance. The findings suggest that even though management had an awareness of the qualities raised by users, they mention issues associated with the disclosure of commercially sensitive information and the risk of misinterpretation when it comes to incorporating users' expectations in the disclosure process.

The study also identifies potential issues associated with the disclosure process itself including management's ability to get across to all of the bank's risk systems and processes as well as their ability to actively differentiate between their day to day risks and the significant risks that have the potential to damage what the business does. There was also the issue associated with disclosing risk information that falls within the banks business culture which includes delivering good value to its customers and making them well aware of what the banks' risks are. However, there is the issue of filtering out information and providing customers with the information they actually need and not what they want which becomes a difficult task and affects the bank's business culture of providing quality delivery to its customers.

Chapter 9: Discussion

9.1 Introduction

This chapter provides a discussion of the primary finding presented in chapter 7 and 8 in an attempt to bring it in line with the Disclosure Management Framework and the Gaps Model of Service Quality. Section 9.2 discusses the findings relating to participants' views on the concepts and definition of risk. Section 9.3 then discusses users' expectations for risk disclosure quality. The study focussed on management's understanding of these expectations and their responses to the points raised by participants on their expectations for quality risk disclosures. These findings are discussed in section 9.3.1. The findings reveal the potential causes for a discrepancy between users' expectations and management's understanding of these expectations in their attempt to address these. It also revealed issues associated with translating management's understanding of users' expectations into disclosures quality specifications. Building on the Disclosure Management Framework, section 9.4 discusses the findings on the process of designing and developing risk disclosures within the context of Bank A. The chapter then concludes in section 9.5.

9.2 Discussing the definition of risk from the perspective of both the preparers and users of risk disclosure

The findings in chapter 6 suggest that in order to understand the views of preparers and users on risk disclosure, it is important to identify what they refer to as risk. This provides an opportunity to identify any varied views expressed by the participants on the concept of risk and its definition. The findings relating to the different views expressed by participants on the definition of risk serves as a starting point to understanding their expectations for risk disclosure which is an important aspect of the study.

The current study finds that, users often refer to risk as a default or a negative outcome. However, from a management's point of view risk is initially perceived as the occurrence of an event which has the potential to result in a negative outcome but there is also the potential for that event to result in a positive outcome (i.e. reward). Thus, management's ability to control for the risk could determine the degree of the impact of the risk on the bank. This is what drives management's incentive to take on risks and provide measures to control and mitigate the potential of the event resulting in a negative outcome.

The findings also show that, whereas institutional investors refer to risk as unexpected losses associated with a deviation from the bank's share price and their investment in the bank's equity, financial analysts, on the other hand, refer to risk as mainly variations or fluctuation in the bank's risk profile, asset holdings, asset quality, liquidity position and earnings which ultimately affect the banks share price. Drawing insights from the discussion above, section 9.3 below discusses users' expectations for risk disclosure quality.

9.3 Discussing users' expectations for risk disclosure quality

Prior studies on the Disclosure Management Framework identify a number of antecedents, which drive the disclosure of corporate information, including user expectations (Gibbins *et al,*1990; Mayorga, 2013;). However, the Disclosure Management Framework provides a limited scope for exploring the degree to which these antecedents may be managed. Focusing on user expectations for risk disclosure, as a key antecedent to the management of risk disclosure, the current study builds on the Gaps model (Parasuraman *et al.,* 1985; Zeithaml *et al.,* 2002; 2016). The Gaps Model serves as a tool for examining the discrepancies between what users expect and how they perceive the current disclosures. The concepts assume that the discrepancy between these two depends on the degree to which the disclosures are designed to reflect user' expectations. It is worth noting that this is the first study to reconceptualise and adapt the Gaps Model within the context of corporate disclosure. The Disclosure Management Framework was therefore modified to explain the analysed data and findings. This also allowed the researcher to identify disclosure antecedents specific to the management of risk disclosure and potential causes for any discrepancies between what users expect and their perceptions of the actual disclosures they get.

The study identifies managements' perceptions on constraints which prevent them from delivering on what the users expect. The Gaps Model serves as a tool for examining the discrepancies between what users expect and how they perceive the current disclosures. The concepts assume that the discrepancy between these two depends on the degree to which the disclosures are designed to reflect user' expectations. It is worth noting that this is the first study to reconceptualise and adapt the Gaps Model within the context of corporate disclosure.

This study finds that both users and prepares have a role to play in ensuring that this discrepancy is minimal. The degree to which information users are involved in the risk disclosure process may influence the degree to which their expectations are incorporated within the process. As much as managers have a role to play in ensuring that adequate disclosures are providers, users also have to engage by responding to consultations and discussing their concerns with providers and not wait until something goes wrong to get involved. The importance of the user's (customers) involvement in the provision of risk disclosure (service) has been stressed in previous research in the service quality literature (Brown, 1989; Zeithaml *et al.,* 1993).

The adaptation of the Gaps Model enables the study of user expectations within the context of risk disclosure and shed light on management's understanding of these expectations.

Within the context of risk disclosure, most of the disclosure quality specifications users expect were considered critical to management. However, management shed light on some constraints including the disclosure of commercially sensitive information, the risk of misinterpretation and embedding risk disclosure within the bank's business culture. The study finds that, in an attempt to deliver adequate disclosures, these issues may serve as hurdles in management's attempt to deliver (Zeithaml *et al.,* 2016). In the interviews conducted with user participants, the researcher identified seven main themes constructed from users' expectations and perception on risk disclosure quality and include: informed and specific disclosure, the clarity and comprehensiveness of the disclosures provided, providing a link between narratives and numbers, balance between mandatory and voluntary disclosures provided, access to regulatory reporting, the quantity and volume of the disclosures and the reliability of the information provided within the disclosures. A number of these are broadly consistent with prior literature (Ryan, 2012; Abraham and Shrives, 2014; Beattie *et al.,* 2004; Baule and Tallau, 2016; Leuz and Wysocki, 2016). Users' expectations are characterised by a range of levels which are bounded by desired and adequate service and may have different tolerant zones rather than a single level of expectations (Zeithaml *et al.,* 1993). Interestingly, the findings show that even though user participants express a desire for access to the bank's regulatory reporting, reduction in the volume of the disclosures and the reliability of the information provided, it is evident that they recognise these may not always be possible.

In the conversation with interviewees, equity research analyst and institutional investors had different views in relation to the informativeness and volume of disclosures provided particularly. Due to concerns regarding the un-informativeness of the risk disclosures, especially on the non-financial information often provided at the back of the pillar 3 risk report and other narratives, equity research analysts highlight that they would only be prompted to go through the narratives in the pillar 3 report if the profile of the bank's business changes. This is because they believe that most of the time, unless the business profile of the bank changes, their risks are not going to change very much and thus the risk information provided is more likely to be uninformative. Also, equity analysts are much more interested in certain key numbers when it comes to the pillar 3 risk disclosure report. Unlike equity analysts, most institutional investors on the other hand highlight that they do read all the information in the pillar 3 risk disclosure document in order to ensure that they do not miss anything that could cost them some money on their investment. A profound reason for this, drawn from Zeithaml *et al.* (1993)'s antecedent for an adequate expectation, is the individual personal needs as well as the existing conditions of both equity research analysts and institutional investors which influences the degree to which they may perceive a disclosure quality attribute and their varying levels of expectations.

9.3.1 Management's response to users' expectations for risk disclosure quality

Drawing upon Zeithaml *et al.* (2016), This study supports the view that in order to deliver quality risk disclosures, management must first understand how users perceive and evaluate the risk disclosures they provide. The findings indicate that management is aware of most of the disclosure quality specifications users pointed out during the interviews and they have in place avenues for obtaining this information. However, there are still concerns regarding the quality of the disclosures provided. Within the broader concept of the listening gap, This study explores the current constraints within management and identifies potential reasons why management may not meet these expectations.

Even though the head of risk reporting and her team does not specifically have any interactions with users, the annual report process includes an investor and analyst presentation which involves interaction and question and answer sessions between big investors, analysts, each member of the board and the executive team. As part of this process, the head of risk reporting and her team would try to guess what the investors are going to ask to ensure that they have got an answer for them. Within the risk reporting division, the CRO is responsible for facing off to the users during these presentations. However, the CRO's presentation pack would often be prepared by the head of risk reporting, and she is kept up to date with discussions between the users and the organisation.

Beyond the CRO's involvement, the Investor Relations team within the bank is primarily responsible for managing the bank's relationship with its users on an ongoing basis by obtaining users views and understandings with respect to what users would want. Drawing upon Zeithaml *et al.* (2016) the study believes that IR, as front-line employees, may know a lot about what users would want when. Therefore, if management is not in contact with the investor relations team on a regular basis to understand what they know the listening gap widens.

Prepares appeared to presume that user demands for risk disclosure quality and anything that investors would need are embedded in the disclosure requirements and have been obtained by the regulators through investor feedback and consultations. As a result, the regulations are used as a starting point when thinking about what users may want and expect. When standards reflect what users expect, the quality of service they receive is likely to be enhanced (Zeithaml *et al.,* 2016).

However, management is largely responsible for conveying information to users in a way that is clear, concise and informative.

The case of Bank A showed that management experiences some difficulties in establishing links between the risk that are often difficult to quantify, to those that are expressed numerically. This is because even though a lot of effort is put into modelling these risks into numbers that reflect their financial effect, it is often a challenge. Interestingly, the study finds that when it comes to providing these within the public disclosures a lot of discussions are made regarding its commercial sensitivity. In response to these management exhibits an opportunistic behaviour to control the information provided and at the same time foster trust and confidence through the effective management of the disclosure process. However, it is evident that in an attempt to ensure that the banks are financially sound to withstand their risks these disclosures are provided to the regulators as part of the bank's regulatory reporting responsibilities.

Management also highlights that there are additional concerns regarding these non-financial risk disclosures and in providing context to the financial disclosure made which are often provided in the form of voluntary disclosures. These include the issue with disclosing information that might be misconstrued by the information users and the risk of misinterpretation and therefore may prevent management from elaborating on issues that are highly subjective any further. It was gathered from the conversations that, unless they can provide adequate evidence to support their claims, the disclosure would not be made.

Zeithaml *et al.* (2016) suggest that delivering service quality particularly becomes difficult to describe and communicate when the service is new. Participants suggest that disclosure on some risk types such as cyber risk and climate change risk are currently developing and it is not something that the regulator can immediately impose regulations on. This is because it is often not clear what good quality disclosures on these should look like. In this instance, management is recommended to provide these on an ad-hoc basis and voluntary disclosures on these are considered very helpful.

Drawing upon the Gaps Model, Zeithaml *et al.,* (2016, p95) which suggests that in service delivery, the degree of variability inherent in service defies standardisation. Additionally, setting standards on its own will not achieve the desired goal and service quality (Zeithaml *et al.,*2016, p95). This study shows that the differing nature of risk types banks face poses limitations on the extent to which the regulation could go in ensuring disclosure quality.

In an attempt to ensure that disclosures are clear and understandable, the management of Bank 'A' has established strategies. They would often get somebody who is not involved in the risk and risk disclosures to read the risk disclosure drafts from start to finish to assess their level of understanding. They would also try setting the tone in ensuring that there is a balance between formal and informal or “chatty” statements in the risk disclosures provided. Despite various attempts, participants highlight that considering the complexities of bank risks, they do not think disclosure quality would ever be perfect but it is always important to have the processes and strategies in place. When responding, not only to external demands for disclosure but also to management’s incentives for the strategic value of risk disclosure, there is an existing process which is subject to constraints. These shortcomings are moulded by the organisation’s position on disclosure and the decision choices associated with their internal structures.

9.4 The process of designing and developing risk disclosure

Whilst risk disclosure has developed over the years to include the regulatory requirements and demands for best practice, there is a widely held view that the current risk-related disclosures fail to convey real meaning on the bank’s actual risk profile and its implications (ACCA, 2008). However, adequate risk disclosures are important for the well-functioning of the capital markets (Deumes, 2004).

In an attempt to address these demands, there has been an increase in the number of regulatory reforms. Within the context of risk disclosures, the disclosure requirements on IFRS (IFRS 1, 7 and 9), the Pillar 3 Basel Accord of risk disclosure requirements, and the Corporate Governance Code. However, there still exists some form of managerial discretion and as long as the information originates from within the organisation, the disclosure may first and foremost be made at the firm’s initiative, before there is an external request or requirement (Gibbins *et al.,* 1992; Amel-Zadeh *et al.,* 2020). As a result, it is therefore important to understand disclosure in the context of a large number of related managerial activities.

Drawing from the Disclosure Management Framework initiated by Gibbins *et al.* (1990), This study explores the management of risk disclosures within the context of Bank ‘A’. It identifies the degree to which risk disclosure responsibilities are assigned and guided within the Bank (i.e. the internal disclosure structures), disclosure antecedents, and disclosure issues associated with these through the perception of preparers. The preparers demonstrated that there exists within the bank a structured process for deciding what to disclose and what not to disclose which include clear lines of responsibility, assessment of probability and impact as well as review and approval processes. Prior literature found that firms establish routine procedures, including a variety of individual and processes to deal with the review and authorisation of corporate disclosure (Gibbins *et al*., 1990; Mayorga, 2013). Further investigation in This study and within the context of risk disclosure revealed that the bank designed their risk disclosures to correspond to the risk disclosure regulatory requirements, its risk culture, the amount of evidence available to support its claims, and their subjective assessment of what the user needs to know. Management's subjective assessment of what the user needs to know is often based on an assessment of how every piece of information disclosed is going to look to the market.

The bank managers indicated that the risk reporting team, as part of the bank's second line management, together with both the Executive and the Board Committees are responsible for identifying disclosure issues, coordinating risk disclosure information, and ensuring that the disclosures are adequately reviewed and challenged before approved.

In line with prior literature, the findings show that risk disclosure issues were assessed through routine processes including, the review of collated management reports, review of board and committee meeting and board approvals. Interestingly and particularly for risk disclosures, This study also identifies a separate team responsible for risk reporting and delivery and ensuring that its staff were trained to ensure that risk disclosures, specifically, were adequately reported internally. Although, a ritualistic behaviour for an organisational routine existed, prepares highlight that the design and process of risk reporting was sometimes challenging. The ability to get across to all the bank's risk system as well as being able to differentiate between the bank's day to day risks and the significant risks that have the potential to threaten what the business does is often recognised as challenging.

The views of preparers were broadly consistent with identifying antecedents that influence their disclosure process, including the bank's reporting history, its corporate politics, social legitimacy, the regulatory requirements, user needs and any potential effects on their competitive position as antecedents within their disclosure process (Gibbins *et al.,* 1990; Adams, 1996; Mayorga, 2013). Interestingly, they provide insights on the vital role risk culture plays in expressing the bank's overall business culture. There are the risk disclosures gathered and collated as a part of the bank's internal risk reporting process which will often be in line with the bank's risk culture or appetite. However, the issue lies with filtering out that information and deciding what to disclose to the public which then meets their business culture. Management also identified the integrity of the bank's risk function as an internal disclosure antecedent impacting the way disclosures may be provided. It is believed that the integrity of senior risk management personnel is particularly crucial to the way risk disclosures are provided, and disclosure is one of those tools that would eventually demonstrate the bank's integrity at some point.

Building on the Disclosure Management Framework, disclosure issues influence the firm's disclosure output as they activate the use of specific activities and procedures as well as influence the individuals and groups involved in the disclosure process (Gibbins *et al.,* 1990). These determine whether the bank would disclose or not disclose a particular piece of information. Disclosure issues highlighted by Gibbins *et al.,* (1990) include, the issue with assessing materiality, contingent claims, contract settlements, line of business reporting, loss of provisions, inventory valuation, managing expectations and determining timing and content. These issues related to the provision of financial information. Mayorga (2013) identified interpretation of regulatory information, determining timing and content, media speculation, analyst expectations, environmental uncertainties, and third-party involvement as disclosure issues associated with the provision of continuous disclosure. By combining the Disclosure Management Framework with that of the Gaps Model, This study focuses on two stages (i.e. listening stage and the Design stage of disclosure) and identifies disclosure issues as potential causes for a listening gap and a design gap.

As a brief recap, the listening gap refers to the difference between the users' expectations and management's understanding of what the user expects. The design gap then refers to the difference between management's understanding of what customers expect and the establishment of designs to reflect these perceptions. The fulfilment gap, which is the gap between what users expect and how they perceive the disclosures delivered, is a function of both the listening and the design gaps.

Even though most of the disclosure quality specifications users expect were considered critical to management, the study identified a few constraints. These include the issue with commercially sensitive information, the risk of misinterpretation, the conflict between risk culture and business culture, user's response to consultations, as well as the act of users having to wait until something goes wrong. In addition to this, This study also identifies the bank's incentive to control information, its ability to get across the whole banking system and the ability to differentiate between day to day risks and significant risks as potential causes for a design gap. It is worth noting that the potential causes for a listening gap are also potential causes of the design gap. These issues related to the provision of risk disclosure quality.

Prior studies have emphasised the importance of managing user expectations within the firm's disclosure process and the huge costs associated with not meeting regulator and market expectations as the main issues associated with the disclosure of material information (Mayorga, 2013).

9.5 Summary

This chapter provided a discussion of the results and findings from the management of risk disclosures and the case study which focused on users' expectations for risk disclosure quality and the degree to which risk disclosures are managed to incorporate these.

The studies by Gibbins *et al.* (1990), Mayorga (2013), Johansen and Plenborg (2018), Amel-Zadeh *et al.* (2019) have provided important insights into the management of corporate disclosures. Consistent with Gibbins *et al*. (1990), Mayorga (2013) pointed to the importance of user expectations as a key antecedent in the corporate disclosure process. Consistent with Mayorga (2013) the study argues that there are gaps in expectations between what an informed user believes should be disclosed and what the company was prepared to disclose.

A key finding of This study is that, even though management had an awareness of users' expectations for the disclosure quality specifications discussed, they highlight a few constraints and suggest that both management and users themselves have a role to play in ensuring that their expectations are incorporated within the risk disclosure process. It is argued that users have a responsibility to engage by responding to consultations and discussing their concerns with providers and not having to wait until something goes wrong.

This study also finds that users express some level of tolerance for a few of the disclosure quality specifications they expect, such as information reliability, access to regulatory reporting and the volume of disclosures provided. However, they believe some disclosure quality specifications should not be compromised including, the provision of informed and specific information, clear and comprehensive information in ensuring that there is a link between the narratives on risks identified and the financial statements. The Gaps Model of Service quality in combination with the Disclosure Management Framework has been highly effective in bringing the researcher beyond just an examination of the management of risk disclosure but also the degree to which these are managed to incorporate user expectations.

Chapter 10: Conclusion

10.1 Research overview

Quality risk disclosures are believed to contribute to financial stability by providing investors and other market participants with a better understanding of the firm's principal and emerging risks as well as its risk management practices. The aftermath of the GFC has intensified the desirability for banks to publicly disclose information on their risks. In response to this, banks have responsive systems in place in an attempt to manage compliance and increase its legitimacy. Prior research has highlighted that in response to institutional pressures for adequate corporate disclosure, banks have in place established and responsive disclosure structures (Gibbins *et al.,* 1990, Mayorga, 2013). According to the literature, whenever management perceives an event or an issue as having a disclosure implication, their decision to disclose or not disclose their exposure to such an event depends on the disclosure structures in place.

Drawing on the Disclosure Management literature, which examines the activities and internal responsive systems associated with the establishment of corporate disclosure, the current study explored the management of risk disclosures in a UK listed bank. The research particularly focuses on the degree to which user expectations may be incorporated into the bank's risk disclosure process. In order to achieve the set research objective, this study adopted and reconceptualised concepts from the Gaps model to shed light on users' expectations and perceptions for quality risk disclosures as well as management's response to these and the degree to which these are incorporated within the disclosure management process. This offered the researcher the opportunity to explore any discrepancy between users' expectations for quality risk disclosure and their perception of the quality of risk disclosures currently provided. The Gaps Model identifies this overarching discrepancy as the fulfilment gap and suggests that the degree to which management translates their understanding of these expectations into disclosure quality specifications influences the size of this discrepancy. In applying this model, the current study argues that, it is important for management to be aware of users' needs for adequate disclosure in order to facilitate market discipline. Management's understanding of these expectations may have disclosure implications and may impact the decisions around the idea of deciding what to disclose and what not to disclose in order to meet users' disclosure quality specifications.

This chapter concludes the thesis and includes an overview of the research contribution in section 10.2, the limitations of the study, implications and suggestions for future research in sections 10.3, 10.4 and 10.5 respectively.

10.2 Research contribution

Although quality corporate disclosure to some extent has been the subject of studies in the area of accounting, and a number of disclosure quality specifications have been identified within the risk disclosure literature (Beattie *et al.,* 2004; Abraham *et al.,* 2012; Ryan 2012), the perspectives of users on the subject have been neglected by corporate disclosure scholars to a large extent. Inspired by Mayorga (2013) which posits that disclosure issues arise mainly from the perceived high costs associated with not meeting regulator and market expectations, this study contributes to the disclosure management literature by providing new insights into users' expectations for quality risk disclosure and the degree to which issues associated with users' expectations are incorporated within the disclosure management process. It is believed that management spends a lot of time and effort providing transparent disclosures to investors and other stakeholders in an attempt to improve their disclosure reputation and increase their analyst following.

Drawing on the Disclosure Management Framework, the main disclosure issue (Gibbins *et al.,* 1990) explored in this study is the issue of incorporating user expectations for risk disclosure quality when providing public risk disclosure.

The current research questions were arrived at by firstly spotting existing gaps in the Disclosure Management Framework initiated by Gibbins *et al.* (1990). At the initial stages of the researchers PhD experience, while identifying possible gaps in the literature to explore, the Disclosure Management Framework initiated by Gibbins *et al.* (1990) was identified. The Disclosure Management Framework presents a structure to inform the activities, procedures, individuals or groups involved in the corporate disclosure process. However, the model had been criticised for its oversimplification and its failure to identify the relationship between the relationships of its components.

Even though prior studies which adapted this model identified user-expectations as a disclosure antecedent they may influence the disclosure process, the framework provided limited scope to explore the degree to what user-expectations are management in the disclosure process. Further to this, the current study identified the Gaps model of service quality as a lens for exploring users' expectations for risk disclosure quality and management's response in translating these their perceptions on these expectations into disclosure quality specifications. However, the Gaps Model does not provide a clear approach to examine the decision choices taken by management in translating their perceptions of users' expectations or in ensuring that their perceptions of users' expectations are incorporated in the actual disclosures provided. For this reason, concepts from the Disclosure Management Framework provides a lens also to provide an explanation on how the internal decision-making process is undertaken by management when translating their perceptions of users' expectations into disclosure quality specifications. As a result, the current study combines both theories in order to provide insights.

The Gaps Model of service quality serves as a tool for identifying and explaining the discrepancy between the customer's expectation for a service performance and their subjective assessment of the actual service performance they get. This overarching discrepancy was referred to as the consumer gap (Parasuraman et al., 1985) or the fulfilment gap (Zeithaml *et al*., 2002). Zeithaml *et al.* (2002) defines the fulfilment gap as the frustrations customers might experience as a result of deficiencies in the design and operation of the service in terms of its failure to incorporate customers' desires. Building on Zeithaml *et al.* (2002), this study reconceptualises concepts from the Gaps Model within the context of disclosure in an attempt to identify potential causes for a discrepancy between users' expectations for quality risk disclosures and their subjective assessment on the actual disclosures they get. The model argues that this discrepancy is influenced by management's ability to understand these expectations and the degree to which these are incorporated within their disclosure process. Thus, the fulfilment gap is a function both the information and design gap. For the purpose of this study, service was reconceptualised as disclosure and customers redefined as users of disclosure information.

However, the application of the Gaps Model as a tool for exploring the management of disclosure is limited in scope. The Gaps Model does not provide a clear approach to examine the decision choices taken by management in translating their perceptions of users' expectations or in ensuring that their perceptions of users' expectations are incorporated in the actual disclosures provided. For this reason, concepts from the Disclosure Management Framework were introduced to provide an explanation on how the internal decision-making process is undertaken by management in translating their perceptions of users' expectations into disclosure quality specifications. This is where the current study combines both theories in order to provide insights and develop a theoretical framework in the process.

The study, therefore, adds to the existing literature by offering insights into the perspective of both preparers and users of risk disclosures on the concept and definition of risk. Thus, research question 1. Research question 2 sought to explain users' expectations for risk disclosure quality on the current risk disclosures provided within the case bank's annual report and pillar 3 report, as well as management's responses to these expectations. Following on from the studies of Solomon *et al.* (2000), Ryan (2012), this study acknowledges the importance of the perception of those who actually use the risk disclosures provided in providing insights into the usefulness of current risk disclosures. The purpose of providing quality risk disclosure is mainly to encourage market discipline so as to reduce information asymmetry and help to promote comparability among banks (Bank for International Settlement, 2015). By exploring users' expectations for quality disclosures and at the same time exploring their perceptions on the quality of the actual disclosures they get, it offers insight into the degree to which users might be able to process the information they receive.

Drawing on Zeithaml *et al.* (1993) the findings of the study supports the view that users' expectations are characterised by a range of levels which are bounded by users' perceptions of a disclosure quality specification as either desired or adequate. As a result, the users may have different tolerant zones rather than a single level of expectations for the overall quality of the risk disclosures provided (Zeithaml *et al.,* 1993). Interestingly, the findings show that even though user participants express a desire for an access to the bank's regulatory reporting, reduction in the volume of the disclosures and the reliability of the information provided, it is evident that they recognise these may not always be possible. However, user participants expressed a zero level of tolerance for disclosures that are uninformative, unclear and incomprehensible; narrative disclosures that lack evidence on how they could be linked back to the financial statement provided, as well as disclosures that show a practice of management just 'box-ticking'.

The findings of the study support the view that user expectations are a key antecedent to the disclosure management process (Holland and Stoner, 1996; Mayorga, 2013). With regard to the process management enacts for the development and creation of risk disclosures the study finds that before management seeks to understand users' perceptions on a disclosure quality specification, management already has some challenges embedded within their risk reporting process. These include management's ability to get across the bank's different risk systems and their ability to differentiate between the day to day risks and key significant risks that have the potential to threaten what the business does. In fact, these challenges would impact the degree to which users' expectations could then be incorporated within their existing process to ensure that they provide quality disclosures. In addition to this, the study finds that when it comes to deciding what to disclose and what not to disclose, management has an incentive to control the information they provide in an attempt to reduce the risk of misinterpretation and prevent disclosing information that may be perceived as being commercially sensitive.

Finally, research question 3 investigates how risk disclosure decisions relating to the creation of their external public reports (i.e. annual report and pillar 3 risk disclosure report), as well as the structures in place to facilitate adequate risk disclosures, are developed. The research question also aimed at exploring the perceptions from management on the challenges faced in the risk reporting process.

Additionally, prior research has mainly adopted a statistical approach to risk disclosure and reporting. These studies have been useful in providing insights into the different firm-specific characteristics and variables associated with a certain level of risk disclosure as well as the relationships between these. However, such an approach does not allow them to understand the management practices and processes for risk disclosure. Therefore, to achieve the current research objectives, the researcher uses a qualitative case study approach as discussed in the methodology chapter.

10.3 Implications of the study

The findings from the study provide details on the different disclosure quality specifications raised by the user participants. The findings suggest that risk reporting management need to acknowledge users' perceptions of the current risk disclosures they provide in order to ensure market discipline. With regards to the importance of risk reporting in ensuring that investors and other information users are accurately informed to make economic decisions, managers need to interact with users to understand how best they can provide risk disclosures in a manner that facilitates this.

Risk disclosure managers across the world, especially listed companies, have a challenging role in providing disclosures that adequately represent the business and risk profile. The current study provides insights into the activities taken by management and decisions regarding how their risk disclosures are created. This facilitates the identification of the objectives of preparers and the challenges faced during the risk disclosure process.

Managers of other firms could also benefit from the findings from this study, as they could use this as a benchmark to review their own disclosure processes. Considering users' views on the current risk disclosures as discussed in the findings, managers could think of ways to improve their current disclosure practices. Managers could also reflect on their own disclosures and the degree to which they are meeting the needs of what users expect as discussed in the findings.

Risk disclosures, especially in the aftermath of the GFC, have been the focus of regulators and policymakers. Providing insights into risk disclosure decision making is of relevance to regulators and policymakers. Regulators could evaluate users' expectations and perceptions, the degree to which these are incorporated in the risk disclosure process, the challenges discussed by management, and the ways in which the regulations might amend or include guidelines and requirement that could then improve the risk disclosure practice. This research will be useful for regulators as it stresses particularly the issues associated with the disclosure of commercially sensitive information and the risk of misinterpretation in the provision of risk disclosures. This will draw the attention of regulators to provide some guidelines on how firms determine what information is commercially sensitive or not. This is important as it protects users from managers who may withhold relevant risk information because of the amount of discretion they have in determining what information is commercially sensitive or not.

Finally, investors and other risk information users could benefit from an understanding of the current risk disclosure process within the context of a UK listed bank. This provides insights into the decision choices made and the challenges managers remain under when deciding what to disclose and what not to disclose. It also provides users with the opportunity to understand the different views of other users on the quality of risk disclosure which may then give them a different perspective. Also, the findings shed light on the importance of the user's involvement in the risk disclosure process by responding to consultations without having to wait until something goes wrong or a crisis happens.

10.4 Limitations of the study

In an attempt to achieve the objectives and aims of the current study and at the same time make a significant contribution the current study adopts and reconceptualises a framework that has been used extensively in the marking literature. This was decided by the researcher after attempts were made to find an appropriate theory in the accounting and disclosure literature that could provide insights into users' expectations for the disclosure and the degree to which these may be incorporated by management into their disclosure decisions.

One limitation of the study relates to the number of interviewees who participated in this study. This limitation restricts the degree to which generalisation could be made based on the results and findings from the study. With regard to the research approach chosen for the current study, generalisation of other contexts is problematic, since the findings of the case study have inherently been context specific. Thus, the current study cannot affirm that the case of Bank 'A' and its users on the degree to which users' expectations for quality risk disclosures are incorporated within Bank A's disclosure process is representative of other UK banks or banks in other contexts. Despite these limitations, the potential for a qualitative case study to contribute to the development of knowledge and theory should not be ignored. Moreover, the generalisability of findings as the term is commonly interpreted in quantitative positivist research is not a concern in an interpretivist qualitative research.

Secondly, there are the limitations with analysing qualitative data associated with how the researcher summarises lots of pages of data collected from interviews, to arrive at the findings. In relation to this Collins and Hussey (2014, p154) highlights that with interpretivist research, the researcher should seek to collect in-depth and rich data by limiting the scope of their study to key concepts and themes. This will then provide more focus and help reduce the amount of qualitative data analysed. With this in mind, the researcher uses the principles for adequate risk disclosure established by the Bank of International Settlements as a starting point for identifying the concepts drawn within the broad concept of user expectations.

10.5 Suggestions for future research

This research explored the nature of a UK listed bank's risk disclosure process and the degree to which users' expectations may be incorporated within this process. The current study also explored what users may expect This is a relatively new area of research within the risk disclosure literature and demonstrates an understanding of both the desired and adequate expectation of user as well as their perception on the current state of the risk disclosures provided. Due to the exploratory nature of the current study, it is likely to provide a number of opportunities for future research in this area.

The current study investigated how risk disclosures are created from the perception of risk reporting managers. The empirical evidence identifies the structures and decision choices made by management in their disclosure process within the context of a UK listed bank as. It is recommended that future research could explore this in other UK banks to match these disclosure process to those of other UK banks in order to gain a better and fuller understanding of the creation of risk disclosures within management. Future research could also extend this research to any corporate reporting entity outside of the financial sector. There is also the potential to explore the creation of risk disclosure in other countries, especially developing countries, who may be different due to their regulatory and institutional environments.

The current study did not include the views of external auditors. Considering the role of the external auditor in the corporate disclosure process, the views of these participants in this study would have contributed to the findings. Even though the researcher did send out invitations and follow-up invitations to external auditors, there were no responses. Similar research in the future should consider interviewing external auditors.

The current study also identifies a few challenges that act as potential causes for a discrepancy between what users expect and the degree to which these expectations may be translated into disclosure quality specifications by management when deciding what to disclose and what not to disclose. It would be interesting in further research to explore in more detail how organisations deal with challenges such as the risk of misinterpretation and the disclosure of commercially sensitive information and how they decide what information is commercially sensitive or not commercially sensitive. This would then enable regulators, influential users and managers in other banks to assess the degree to which management could be assisted to address these in order to improve the adequacy of risk disclosures.

There is also the scope to apply the new theoretical framework developed in this study in other contexts of corporate disclosure (e.g. disclosures on Corporate Social Responsibilities). Applying the model to other disclosure contexts will allow the identification of potential causes for a listening gap and the design gap which will be different from those identified in this study. Furthermore, there is currently little scope theoreticality to guide the examination of the disclosure management process within an organisation and their interactions with information users. In relation to this, there are likely to be possibilities to develop theories that would assist in offering insight into corporate disclosures. This would contribute to the literature and provide the opportunity to explore this area further.

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Appendix A: Interview questions for risk disclosure managers

1. I would like to know a bit about your role at Bank A and a little bit about your background?
2. How will you define risk in your view?
3. How are risk disclosures important for achieving the objectives of the bank at top level?
4. In your view, what are some of the key issues that give rise to disclosure implications in Bank A?
5. What would you say are some of your responsibilities as a risk reporting manager?
6. How are risk disclosure responsibilities assigned and guided?
7. How are risk disclosures supervised both internally and externally?
8. What would you say are the major issues Bank A faces in relation to internal risk reporting and external risk reporting?
9. With the different branches of the bank within the country, how is risk information collated and how does risk communication work across these branches?
10. So apart from the risk disclosure requirements from the IFRS, I know there are also risk disclosure requirement from the Basel as well, but then what other bodies require the disclosure of risks?
11. What would you say is the process within the bank for internally reporting risk?
12. I know with external reporting a lot of it is highly regulated but what would you say is the process within the bank for externally reporting risk?
13. In your opinion do you think mandatory risk disclosures have been more of a positive or a negative and why?
14. What is the process of disclosing new risks that occur which are outside the scope of the mandated risk disclosures?
15. What degree of discretion do you have when providing disclosures? What is the significance of providing voluntary disclosures?
16. What are some of your views on the importance of risk related disclosures both internal and external? What are the costs associated with providing such information to bank?
17. Does the provision of risk disclosures provide any benefits to the bank itself and if yes what are some of these benefits?
18. In the provision of risk related disclosures, would you say they are provided with the aim to legitimise or to be efficient and why?
19. So, with the different users of risk disclosures, in your view, who are some of these users?

20. In terms of providing risk disclosures, the users of these disclosures tend to different agendas for the disclosures, so how is the variability of the usage of risk disclosures incorporated in the construction of these reports?
21. Apart from investor presentations where you engage with investors to understand what their main concerns are, and AGMs and Governance forums what other channels of communication do you use to obtain this information?
22. So, are there any interactions between risk reporting managers and investors or other users of the risk disclosures provided?
23. Are there any interactions between risk reporting managers and other bank' risk reporting managers regarding risk disclosures?
24. Are there instances where management meets with the regulators to discuss such complex issues relating to these non-financial risks for instance?
25. What are some of your views on the non-financial risk disclosures like those relating to operational risk for instance?
26. How will you describe the risk culture in Bank A?
27. I would like to also know how the banks risk culture is embedded in the provision of risk related disclosures?
28. How does corporate history and experience influence risk and the management of risk disclosures?
29. In your view does how does a bank's tradition, history and experience influence the risk disclosures provided by the bank?
30. Are there instances where there has been an error in the disclosures submitted say last year and you have had to do a resubmission? If yes, what is the process of resubmitting such disclosures of risk?
31. How will you perceive the availability of the resources necessary for providing these risk disclosures within bank A?
32. So, when I spoke to users, they do highlight some concerns with respect to the clarity and consistency of the risk disclosures of Bank A. What would you say is your view or are there any issues in relation to ensuring that the reports are consistent and clear over time?
33. What are some of your thoughts on how risk related disclosures can be improved?

Appendix B: Interview questions for the regulator

1. I would like to kindly know a little bit about your background and role as a manager of prudential policy, accounting and disclosures?
2. What role does the FRC play in the provision of risk related disclosures?
3. How will you define risk?
4. How relevant are risk disclosures in your opinion? What are some of your views on the usefulness of risk disclosures provided by banks?
5. What are the various sources policy makers obtain when assessing the risks, the risks banks face?
6. How often do you meet with these managers? So, does the regulator have any interaction with the bank in relation to the risk disclosures, and if yes what are some of the issues discussed?
7. Do you have meeting with other risk information users, for example investors to discuss such disclosures? if yes what are some of the issues discussed?
8. How are the different user agendas incorporated in the formation of risk disclosures? How is the issue of user variability incorporated and dealt with in the formation of risk related disclosures?
9. There has been some recent debate in the academic literature on the importance of voluntary risk disclosures over mandatory risk disclosures, what are your views on this?
10. In your view how has changes in risk disclosure requirements influence risk disclosure behavioural patterns in the UK banking sector?
11. You've provided me with some brief information of the formation of operational risk related disclosure, but I would like to ask If you could throw more light on how policy makers decide what risk related information banks should disclose?
12. In your perception what type of risk related disclosures are of greatest importance and why? what are your views on the importance of non-financial risk related disclosures? Do you consider them useful? If yes how useful are non-financial risk related disclosures?
13. So, from a prudential regulator's point of view what are your expectations of the risk disclosures provided by the bank?
14. With the principles of disclosure from the Basel (i.e. comprehensive, comparability, clarity, meaningful and consistent). In your view how will you perceive the risk disclosures provided by Bank A in relation to these principles? How is the quality of the disclosures

assessed in the FRC? In your view what would you consider as the key dimension of a quality risk disclosure practice?

15. In your opinion how useful are the risk related disclosures provided by Bank A?
16. Are there some mechanisms to recognise best practice on the disclosures of risk related information provided by UK banks? Does the FRC give some form of recognition or awards for banks that provide best practice in relation to these disclosures?
17. Overall what is your subjective assessment of the risk disclosures provided by banks?
18. Is there anything, in your view, that could be improved in the way risk disclosures are currently provided?

Appendix C: Interview questions for financial analysts

1. I would like to know a little bit about your role and a bit about your background as well?
2. How will you define risk?
3. How relevant are risk disclosures provided by Bank A in your view?
4. Do you become any more informed year on year from the public risk disclosures?
5. How are risk disclosures used in your day to day activities as an equity analyst?
6. In your analysis do you read the risk reports provided by the banks you do research on? Would you say the risk information is readily available to you?
7. What source documents do you often use to obtain information on the bank's risk disclosures?
8. Are there instances where risk related information in the media or in the news are found useful?
9. In instances where the risk information provided is not clear within the public reports of Bank A, do you contact the bank's management in anyway or what approaches are taken?
10. When you contact the bank's management, are they very responsive?
11. You did mention you mostly use financial information, are there instances where you consider or use non-financial risk information and how is this information used? For example, operational risk, conduct risk or people risk
12. What are your views on the clarity and reliability of the risk disclosures provided?
13. What are your views on the consistency of the risk disclosures provided, one year to the next?
14. What are some of your thoughts on the timeliness of the disclosures?

15. Do you get to have interactions with regulators who make these risk disclosure requirements?
16. What are your current expectations for the quality of risk disclosure? For example, apart from those discussed relating to clarity, reliability, consistency etc
17. what is your overall subjective assessment of the actual risk disclosures provided by Bank A?
18. Is there anything that could be improved in the way risk disclosures are provided?

Appendix D: Interview questions for institutional investors

1. I would like to know a little bit about your role and a bit about your background as well?
2. How will you define risk?
3. How relevant are risk disclosures provided by Bank A in your view?
4. Do you become any more informed year on year from the public risk disclosures?
5. How are risk disclosures used in your day to day activities as an institutional investor/fund manager?
6. In your assessments do you read the risk disclosure reports provided by Bank A? Would you say the risk information you seek is readily available to you?
7. Apart from the pillar 3 risk reports and the annual reports, what other documents do you use to obtain the risk related information and how are these used?
8. Are there instances where risk related information in the media or in the news are found useful?
9. In instances where the risk information provided is not clear within the public reports of Bank A, do you contact the bank's management in anyway or what approaches are taken?
10. When you contact the bank's management, are they very responsive?
11. You did mention you mostly use financial information, are there instances where you consider or use non-financial risk information and how is this information used? For example, operational risk, conduct risk or people risk
12. What are your views on the clarity and reliability of the risk disclosures provided?
13. What are your views on the consistency of the risk disclosures provided, one year to the next?
14. Do you think having access to information in the bank's ICAAP or ILAAP will add any value to the work that you do as an analyst? So, I understand that most users do not have

access to the ICAAP calculations under pillar 2a requirements. How does this affect the usefulness of the risk disclosures to you as an analyst?

15. What are some of your thoughts on the timeliness of the disclosures?
16. What are your current expectations for the quality of risk disclosure? For example, apart from those discussed relating to clarity, reliability, consistency etc
17. Do you get to have interactions with regulators who make these risk disclosure requirements?
18. what is your overall subjective assessment of the actual risk disclosures provided by Bank A?
19. Is there anything that could be improved in the way risk disclosures are provided?

Appendix E: Participant Information Sheet

Participant Information Sheet

My name is Zaneta Azuma, a second year PhD student at the University of Glasgow. I am currently undertaking a project on the management of risk disclosures in the UK banking sector and I would kindly like to invite you to take part in this research study, in the form of an interview.

Before you decide it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part.

This project is about gaining an understanding of the issues associated with the provision of risk disclosures and the responsive structures management have in place when deciding what to disclose and what not to disclose. As well as identifying some gaps in the communication process between management and its stakeholders.

The interview is likely to last from between 45 to 60 minutes. The researcher also intends to keep participant's personal details confidential and the names of participants will be made anonymous and would be allocated as manager A, B; Investor A, B; Regulator A,B; and Financial Analyst A,B etc. No record will be retained of how the codes relate to the identifiers/participants.

Please note also that confidentiality will be respected unless there are compelling and legitimate reasons for this to be breached. If this was the case we would inform you of any decisions that might limit your confidentiality.

This research is solely for academic purposes and I would like to confirm that your participation is voluntary. The data collected from the interviewees will also be retained for academic purposes only.

The data collected from the interviews in addition to any documents provided by the participants in support of the research study will also be processed by the researcher and kept on a USB and computer secured with a password. The researcher also intends to change the passwords on a regular basis. Any paper documents received from participants to support the research will be kept in locked cabinets and in a locked office and the access to the cabinets and passwords will be restricted to the researcher. Information collected from the participants and the final results of the research study will be stored at the University of Glasgow and the data will be shared/archived or re-used in accordance with Data Sharing Guidance (https://www.ukdataservice.ac.uk/manage-data/plan/how-share).

Please note that, participants would also be allowed access to the data and results of the research study where this is required.

Finally, I would like to confirm that this project has been considered and approved by the College Research Ethics Committee

Thank you for reading this.

For further information please contact:

The College of Social Sciences Ethics Officer

Dr Muir Houston

email: Muir.Houston@glasgow.ac.uk